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ADDIS ABABA DECLARATION OF AFRICAN MINISTERS RESPONSIBLE FOR TRADE AND DEVELOPMENT PREPARATORY TO UNCTAD VII

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ADDIS ABABA DECLARATION OF AFRICAN MINISTERS RESPONSIBLE FOR TRADE AND DEVELOPMENT PREPARATORY TO UNCTAD VII

(Addis Ababa, 13 March 1987)

CONTENTS

		Paragraphs
PART I	Addis Ababa Declaration of African Ministers Responsible for Trade and Development Preparatory to UNCTAD VII.....	1-15
PART II	Resources for development, including financial, and related monetary questions...	1-21
	Commodities.....	22-129
	International Trade.....	130-172
	Issues arising in trade relations among countries having different economic and social systems.....	173-188
	Problems of the least developed countries, bearing in mind the Substantial New Programme of Action for the 1980s for the Least Developed Countries.....	189-201

1. We, the African Ministers responsible for Trade and Development, meeting in Addis Ababa, Ethiopia from 16 to 18 March 1987 have adopted a common position on trade and development issues as our contribution to proposals to be submitted by the Sixth Ministerial Meeting of the Group of 77 to the Seventh Session of the United Nations Conference on Trade and Development to be held in Geneva, Switzerland, from 9 to 31 July 1987. In the elaboration of this common position we have kept in mind the objective of the development of our continent and the need to strengthen our solidarity with other regions of the Group of 77 in our common desire to reactivate and enhance international economic co-operation for development and in order to attain the New International Economic Order.

2. The developing world is facing a crisis of unprecedented gravity. In many developing countries, the development process has collapsed. On the eve of UNCTAD VII, the flow of financial resources is much reduced, and several countries suffer net outflows. The debt burden of developing countries constitutes an obstacle to the mobilization of national and international financial resources for development. Unprecedented drop in the commodity prices deprive many developing countries of export earnings which are necessary for financing their imports and indispensable to sustain development and to service external debts. The erosion of respect for the disciplines of the international trading system exposes developing countries to arbitrary obstacles to their trade. As a consequence societies and political systems are under acute strain.

3. We are gravely concerned by the continuing critical economic situation in Africa which has affected a large number of African countries and has worsened since the 1980's. The collapse of the international market for commodities has undermined Africa's dependence on trade as a viable instrument for promotion of growth and development. For instance in 1985 Africa's export earnings stood at US$60.6 billion but in 1986 the African continent export earnings declined to US$44.3 billion. Coupled with this, is Africa's debt service which is estimated at US$25 billion a year - between 1986 and 1990. Faced with inadequate resources, African governments budgetary allocations for imports, investment and employment generation have been drastically reduced. As a result many of our peoples continue to face acute food-shortage and are therefore threatened by starvation and malnutrition.

While this critical situation results from a combination of endogenous and exogenous factors, we strongly reaffirm that the development of our societies rests primarily with ourselves. To this end, we are making efforts to build viable economies geared to sustained growth in order to derive greater benefits from production for national and international markets. However, the deterioration of the international environment, which aggravates the present crisis, is beyond our control. Neither can our efforts alone nor the free play of market forces, provide a solution in the absence of a fundamental change in the international economic structures and in the attitudes and policies of the major industrialized countries towards Arrican countries.

5. Accordingly the Heads of State and Government of the Organization of African Unity, at their Twenty-First Ordinary Session held in Addis Ababa in July 1985, adopted Africa's Priority Programme for Economic Recovery 1986-1990 in order to reorient Africa's policies and programmes relating to recovery and growth during that period. Furthermore, the General Assembly of the United Nations, meeting in special session in May/June 1986, unanimously adopted the United Nations Programme of Action for African Economic Recovery and Development (UNPAAERD) 1986-1990, expressing the solidarity of the international community with Africa and its willingness to seek effective and lasting solutions to Africa's economic and social problems. Nevertheless, while the African countries as a whole have started to put the UNPAAERD into effect, we regret that the international community has not yet matched its commitments to provide substantial resources in support of the Programme of Action.

6. For us, the African Ministers Responsible for Trade and Development, the priorities for action are dictated by the objective of developing our economies within a more favourable international environment. These priorities pertain to the financing needed for the economic development of our countries.

7. Finance for development implies the mobilization of domestic savings, official development assistance, foreign investment and bank credits. However, domestic savings cannot grow fast enough without the alleviation of our debt burdern, accelerated development, recovery of our export volumes and the improvement of both commodity prices and terms of trade. Similarly, foreign investment and commercial lending are deterred by the accumulation of debt at excessive interest rates and on severe terms and conditions. Accordingly, additional finance for the development of our productive structures will require inter alia a reorientation of conditionality within a debt strategy based on our development objectives as well as a substantial increase in ODA flows in support of our economic social goals.

8. Another set of priorities is made up of measures needed to give effect to the overall objective of the Integrated Programme for Commodities which is to provide resources for development and diversification of our commodity-dependent economies. To this end we appeal for an urgent ratification of the Common Fund Agreement to make it operational, the conclusion and the strengthening of international commodity agreements and other mechanism to stabilize markets and prices, the enlargement and improvement of existing compensatory financing facilities, and the creation of a new enlarged facility, the increase of market access for our raw and processed products and the elimination of subsidies for agricultural production and exports in industrialized countries. We also need additional finance and transfer of technology for the processing, marketing, distribution and transport of our commodities.

9. In the area of international trade, we firmly request the removal of all tariff and non-tariff barriers against products of particular interest to African countries including tropical products and processed raw materials. We call for an improvement of the Generalized System of Preferences in terms of giving wider coverage to agricultural products of export interest to African countries. In this context, action in the area of trade policy taken by some developed countries for non-economic reasons also cannot be ignored. The United Nations General Assembly has condemned the unilateral and collective imposition of economic and trade sanctions for political reasons against developing countries and yet, regrettably, these pressures continue to be applied. We also attach great importance to financial and technical assistance which will enable us to increase and diversify our capacity to produce and market manufactured goods for exports including exports in the South-South and between developing countries and Socialist countries of Eastern Europe (South-East).

10. We are also greatly concerned by the increase in the number of African countries classified as «least developed» and by the deterioration of their economic and social situation, as well as that of least developed countries in other regions. These countries are struggling against profound structural obstacles to development and extreme economic vulnerability. Despite the odds against them, they are implementing corageous policy reforms. But is is clear that action by these countries alone will not suffice to achieve their recovery and development objectives. We, therefore, insist on the need for urgent action to transfer substantial additional external resources to the least developed countries, and to fully implement all commitments undertaken in the Substantial New Programme of Action.

11. The task before the international community is to devise, agree upon and implement a package of policy orientations and concrete measures to revitalize development, growth and international trade through multilateral co-operation. It is a task which calls for a common and sustained effort of the international community.

12. We are concerned by the fact that important commitments are denied: many actions, measures and policies called for by resolutions and decisions of UNCTAD adopted unanimously or by consensus, have been neglected. We therefore propose that a mechanism should be established within the G.77 to evaluate and constantly monitor the implementation aspect of UNCTAD recommendations and resolutions. We further propose that UNCTAD VII instruct the Trade and Development Board to undertake on a regular basis, a systematic monitoring of the implementation of specific actions called for by UNCTAD.

13. We reaffirm the imporant role played by UNCTAD since its establishment in the area of international economic co-operation for trade and development and stress the need to preserve the spirit and the objectives of UNCTAD as embodied in General Assembly resolution 1995(XIX) and in subsequent resolutions and decisions aimed at enhancing the integrity of UNCTAD in fulfilling its mandate.

14. The Seventh Session of UNCTAD will be an opportune occasion for the international community to examine the interdependence of the world economy and the consequences of the current economic situation for the trade and development of the developing countries. It is also hoped that this session will provide a vigorous impetus to the implementation of those commitments undertaken in the UN Programme of Action for African Economic Recovery and Development 1986-1990, in the area of financial resources, commodities and international trade, bearing in mind the special situation of the least developed countries, as well as improving the external environment for development as called for in the Programme of Action.

15. To this end, we attached the following proposals:

ITEM 8 (A) OF THE PROVISIONAL AGENDA FOR UNCTAD VII

RESOURCES FOR DEVELOPMENT, INCLUDING FINANCIAL AND RELATED MONETARY QUESTIONS

1. Assessment of the situation

1. The past few years have witnessed widespread breakdowns of the development process and an international debt crisis of unprecedented breadth, duration and gravity. Most developing countries have suffered a sharp reduction in their pace of economic growth, and a number have undergone contraction. Per capita incomes have fallen back to levels surpassed a decade ago, both capital accumulation and living standards have been cut, and investment in human resources and standards of education, health and nutrition have also been adversely affected. Thus, both actual growth performance and future development prospects have been severely damaged.

2. This constitutes a crisis in development that is unprecedented in breadth and depth. Its underlying cause has been the deterioration of the external trading and financial environment.

- Real interest rates have become and remained extraordinarly steep;
- Commodity prices of export interest to developing countries have collapsed to their lowest levels in 50 years;
- Fluctuations and instability in the exchange rates of the major world currencies;
- At the same time, developing countries have suffered a loss of export markets mainly due to the intensification of protectionism in their principle markets and the slowing of growth.
- Furthermore as growth in developing countries has dropped, so has the dynamism of their mutual trade;
- Sharp decline of ODA in real terms.

3. Many developing countries, after incurring increased debt service charges as a result of higher interest rates and a shrinkage of capacity to service debt due to the deterioration of their terms of trade and export earnings have also suffered an abruptcollapse of lending by international private capital markets, commecial banks in particular.

4. The pro-cyclical behaviour of private flows has been paralleled by deceleration, and in some cases contraction, in official flows due to the adoption of negative attitudes towards development finance by some major donors. ODA levels of many developed countries remain well below the internationally targeted level. Furthermore, the quality of ODA flows has deteriorated, both through the increased tendency to utilize them for commecial purposes and through a more severe conditionality. The levels of direct foreign investment and of officially supported export credits have also dropped, in part due to the cutbacks in investment levels in developing countries following the tightening of the balance-of-payments constraints.

5. The combination of these adverse developments has caused the new flow of financial resources to developing countries to contract drastically and even to become increasingly negative. In 1985 alone developing countries made net outward transfers totalling $31 billion dollars. This abnormal situation has forced a number of developing countries to seek persistent trade suplusses, mainly through import compression, amounting to several percentage points of their national income - a burden which is additional to the income losses incurred through terms of trade deterioration and loss of export market growth. Thus, for the first time after the colonial era, developing countries as a whole are again becoming net suppliers of resources to industrialized countries. This is a grave setback for the cause of development and threatens to further weaken the trade and payments system.

6. The massive reduction in absorption of goods and services required to make up for the worsened trading environment and financial haemorrhage has not only disrupted the economies of developing countries, but has also accentuated social tensions, and as different segments of society have sought to protect their real incomes from being eroded, it has greatly fuelled inflationary pressures. At the international level, the extraction of trade surplusses from developing countries has intensified trade tensions and provided further impetus to the growth of protectionist pressures, by depressing output and employment in developed countries. Despite the need to open markets further to accommodate the adjustments being made by developing countries, new and more sophisticated trade restricting measures have been applied in addition to the level of protectionism that hampers exports from developing countries.

7. The world economic crisis has extracted a heavy toll from all developing countries, especially those in Africa, which for historical reasons have to contend with large mass of poverty and living standards which provide little margin above the poverty line. Their adjustment efforts have reached and sometimes exceeded the limits of social tolerance and substantial additional concessional finance through multilateral sources is needed both for adjustment and development.

8. The adjustment effort required of developing countries has been especially onerous because of the failure of developed countries to reverse the shocks that their restrictive macro-economic and trade policies have inflicted on developing countries. Consequently, real interest rates have remained extraordinarily high, and the demand for developing countries exports low; commodity prices and the terms of trade of developing countries have remained acutely depressed; and protectionism has continued to escalate, despite commitments regarding stand-still and roll-back. The only significant achievement of the policy stance of the developed countries has been the conquest of inflation - and this has for the most part been gained at the expense of developing countries, through the downswing in oil and non-oil commodity prices.

9. Thus, the absence of a co-ordinated set of policies directed at growth together with the deficiencies in the international monetary system which lacks a truly multilateral and coherent framework, have left the global economy deflated, and consequently unable to ensure the revitalization of international trade and development and a mutually satisfactory resolution of the debt crisis. At the same time, the uneven approach being followed to the debt and development crisis, which parallels and reinforces other asymmetries and inequities in the international economic order, militates against a revival of the development process and renders the debt of developing countries a drag both on the development of developing countries and on the growth of the world economy as a whole.

10. Developing countries thus cannot share the complacency regarding world economic trends which prevails in certain quarters in developed countries, which stems from an inflexible attachment to restrictive and unco-ordinated policies, regardless of their global consequences. These consequences are extremely dangerous for all, indeed they even pose a threat to the international financial system and the functioning and credibility of the international trading system. Thus, the general economic environment induced by the policies of major industrialized countries constitutes an obstacle to the development efforts of developing countries.

11. More than four years after the emergence of the crisis the approach of developed creditor countries to the debt problems continues to be inequitable, one sided and partial. While ostensibly"case-by-case" it has in reality been based on certain uniform principles which fail to address the fundamental problems.

. It has been designed exclusively to protect the short-term interest of creditors, and has been oblivious to differences in developing countries' capacity to pay.

. It has wrongly assumed that the debt crisis stems from mismanagement by debtor countries, and has therefore ignored the need for symmetrical adjustment in developed and developing countries.

- It has been based on simplistic preconceptions regarding appropriate policies which fail to take due account of differences in the stage of development reached and in social and political conditions.

- Instead of providing debtor countries with sufficient resources to allow them to strengthen and restructure their productive capacities, it has required the economies of debtors to be tightly squeezed to generate an outward transfer of resources. This has led over and above to negative social impact affecting stability needed for sustained economic growth.

12. As a result of these flaws, responsibilities for dealing with debt problems have not been equitably distributed between the various parties involved: the costs of debt service have been borne exclusively by the developing debtor countries. Maturity, grace and consolidation periods have remained short. The supply of new finance has sufficed only to keep debtor countries current on interest payments, allowing little or no margin for income growth even in per capita terms, accompanied with rigid and inappropriate conditions.

13. As the room for contractionary adjustment has become exhausted and the limits of political and social tolerance reached or even exceeded, recognition in principle has at last been given to the fact that, without resuming development debtors will not be able to meet their obligations in the long run regardless of their aspiration to do so, and moreover, that without external resources, development and growth cannot be revived. However, there is sheer contradiction between this recognition in principle of the need to place growth and development at the centre of the debt strategy and the continued calls upon developing countries to make further restrictive adjustments. The Group of 77 cannot but perceive an ironic note in these calls when developing countries are forced to transfer more resources to developed countries than they receive from them.

14. The inadequacy and insufficiency of recent initiatives such as the Baker initiative is now fully evident. They merely seek to continue the shift towards laissez-faire policies in developing countries, by making available only a modest level of 'involuntary lending' by banks and, now that the IMF has become a net taker of funds from the developing world, giving an enhanced role to the World Bank. It therefore fails to provide a meaningful strategy which would be commensurate with the scale and nature of the crisis and capable of restoring creditworthiness and the momentum of growth. It continues to misplace the onus of adjustment action in debtor countries instead of linking action on the debt front with action to revitalize the world economy as a whole. The latter would require co-ordinated action, involving the participation of developing countries, not just the Group of 5, to redress the present asymmetry in the international monetary system, and in particular to reduce real interest rates, strengthen commodity prices, expand liquidity, improve access to markets, and assure exchange rate stability.

(a) By overestimating the extent and speed of the benefits that could flow from the structural policy reforms advocated and from direct foreign investment, and underestimating the difficulties and drawbacks of each, it calls for further heavy sacrifices from the populations of debtor countries.

(b) It fails to recognize the need to tailor debt service costs to debt servicing capacity.

(c) It fails to assure an adequate supply of resources, either from the private banks; or through the World Bank, in particular the special facility for Sub-Saharan Africa, or through the IMF's structural adjustment facility. Both these facilities are very small in the light of their stated objectives. The special facility for Sub-Saharan Africa, for example, has already committed more than half of its resources in the first year of its activity and will be discontinued effective July 1987.

15. For most developing countries the debt situation remains the most severe strain on growth. Perspectives are gloomy if the framework is not changed since for a number of developing countries debt obligations exceed the capacities of their economies. What is even more intolerable is the increasing conditionality attached to the remaining and highly insufficient financial flows to developing countries, which often tends to undermine their independence and sovereignty in the choice of their development priorities and their social and political system.

16. Financing is needed. Funds must be mobilized and new instruments need to be devised to stop and reverse the negative transfer of resources now taking place, which prevents any accumulation of capital. No efficiency in the use of resources through structural adjustment can offset the siphoning of resources as a result of their transfer abroad. Without resources there can be no expansion and without expansion it will be impossible to create the dynamic climate needed to stimulate investment, the only path to growth.

17. However, the magnitude of the problem is such that an increase in external financial flows alone would not be sufficient for its solution. Parallel and co-ordinated action is needed to lower interest rates, ease the liquidity shortage experienced by developing countries, raise commodity prices, achieve exchange rate stability, increase and improve access to developed countries markets for products of developing countries etc. Co-ordination needed to redress the present asymmetry in the functioning of the international monetary system. The aim of the system - to equitably serve the international community - cannot be achieved with the present extremely high concentration of decision - making power among a few most developed countries. Co-ordination is inconceivable without the active participation of the developing countries. The world can no longer sit back and watch a spectacle in which the fate of all is decided by the few.

Objectives of the Group of 77

18. The Group of 77 sees UNCTAD VII as a major and much needed opportunity to reach concerted and action-oriented agreements on the following main issues in the area of financial resources for development and related monetary issues.

A. Setting up an effective and credible development-oriented debt management strategy aimed at reaching a global and lasting solution of the debt problem of the developing countries. There is no contradiction between the need for such a global solution and the particular attention to be paid to the economic situation, development perspectives and debt service capacities of individual indebted developing countries. Since there is a recognition in principle of the need to place growth and development at the center of a viable debt strategy, the task before UNCTAD VII is to identify all its components and to promote their translation into practice. Such a strategy implies dialogue, co-responsibility and enhanced co-operation between all the parties concerned - governments of developed creditor and developing debtor countries, international financial institutions and banks, as well as equitable and symmetric adjustment. The right approach cannot be merely a technical one. It has to take account of the various political, economic and social aspects of the problem so as to allow the adoption of adequate policies and redraft measures. All parallel actions should be promoted which are indispensable for the success of such a strategy, including increased access to markets of developing countries' exports, lower real interest rates, strengthened and stabilized commodity prices, more stable and aligned exchange rates and more vigorous and growth-oriented macro-economic policies in major developed countries.

B. Revitalizing all channels of financial flows to developing countries: ODA, other official flows, bank-lending and private investment. Both the volume and the quality of ODA should be increased and concrete commitments achieved in pursuance of internationally agreed targets. Other bilateral and multilateral flows, especially at concessional terms, from developed to developing countries as well as bank-lending should be resumed at a pace providing not only for the maintenance of their debt servicing capacity, but more importantly,

permitting a growth in their output and investments, thus leading to a decisive revitalization of their development process. The need for concessional flows being particularly felt by the developing countries which suffer from the handicap of mass poverty, revitalization of such financial assistance should be accorded high priority by the international community. An improved economic environment and better development prospects of developing countries should encourage more substantive foreign investments, to be channelled so as to facilitate the achievement of objectives set up by the developing countries themselves.

Augumented resources should be provided to the international financial institutions so as to enable them to play the leading role in development finance. Consensus should be achieved on the desirable attributes of a more effective and more development-oriented financial system. Such a system should be characterized by longer maturities, increased certainty as to the cost of borrowing, a more stable pattern in the flow of resources, capacity to respond quickly to the changing capital requirements of developing countries and more diversity in the sources of finance.

C. Promoting the reform of the international monetary system so as to make it truly stable, multilateral, equitable and responsive to the development needs of developing countries. Regardless of the dynamic of the reform, increased international liquidity should urgently be provided through, inter alia, a new substantial SDR allocation while maintaining the unconditional nature of the SDR. Allocations should be linked to the development needs of developing countries.

All the above objectives have a common aim: halting the net transfer of resources from developing countries to developed countries and international fiancial institutions and restoring and increasing net financial flows to developing countries. This implies enhanced and equitable international cooperation in the field of money and finance. UNCTAD has a unique role to play in this context being the essential forum for the consideration of financial and monetary questions related to trade and development. Consequently, one of the important tasks fbefore UNCTAD VII is to translate the elements contained in General Assembly resolution 41/202 of 8 December 1986 on the external debt and development into a broader set of more concrete operational guidelines and action oriented measures.

3. Policies and measures proposed by the Group of 77

19. The Group of 77 should ask that a firm agreement be reached at UNCTAD VII on the urgent necessity to bring about a more stable and development supportive international economic environment by increasing the growth rate of the world economy, assuring substantially larger access to markets of developed countries for developing countries' exports, strengthening and stabilizing commodity prices, revitalizing all channels of financial flows from developed to developing countries, increasing international liquidity, lowering real interest rates and stabilizing exchange rates, attaining equitable international monetary system and elaborating and forcefully implementing a viable development oriented debt strategy.

20. All countries participating in UNCTAD VII should unambiguously commit themselves to such an agreement. This, however, cannot detract from the primary responsibility of developed countries for its implementation, due to the overwhelming impact of their macro-economic, trade, fiscal and monetary policies on the international economic environment.

21. The above general agreement, in order to be meaningful and effective, should be accompanied by more concrete agreements on three main sets of urgent policies and measures. Though they are closely interrelated, for the purpose of clarity, these three sets could classified and presented as follows:

A. POLICIES AND MEASURES AIMED AT THE ELABORATION AND IMPLEMENTATION OF A GROWTH ORIENTED STRATEGY FOR TACKLING THE PROBLEMS OF DEBT AND DEVELOPMENT, BASED ON THE CONCEPT OF SHARED RESPONSIBILITY, POLITICAL DIALOGUE AND COORDINATION AMONG ALL THE PARTIES CONCERNED: GOVERNMENTS OF DEVELOPED CREDITOR AND DEVELOPING DEBTOR COUNTRIES, INTERNATIONAL FIANCIAL INSTITUTIONS AND BANKS. THESE MEASURES SHOULD, INTER ALIA, INCLUDE:

(i) improving rescheduling exercises by subtantially extending repayment, grace and consolidation periods and taking account of the flows of export earnings of indebted developing countries;

(ii) ensuring that the consolidation period, on average, is at least 10 years particularly for countries relying primarily on official or officially guaranteed flows for financing development programmes;

(iii) further ensuring that the consolidated amounts cover debt service payments associated with both official and private debt and pay particular attention to short-term debt and to payments arrears;

(iv) eliminating the stock of payments arrears with the active assistance and support of multilateral institutions who should be invited to fund a substantial proportion of such arrears;

(v) ensuring that no donor or institution becomes a net recipient of funds from developing African countries during the period 1987-1990;

(vi) making sure that in the context of debt rescheduling operations, indebted developing countries will not be asked to adopt economic philosophies and concepts which are incompatible with their economic and social systems;

(vii) guaranteeing that, under no circumstances, will concessions on old debt result in the reduction or suspension of new financial flows;

(viii) extension of multi-year rescheduling agreements, which should include repayment not only of principal but also of interest, be applied to both official and officially-guaranteed debt and to debt owed to commercial banks, and incorporating World Bank co-financing and guarantees of commercial bank loans;

(ix) elimination of the requirement of a preliminary agreement with the IMF for the negotiation of multiyear rescheduling of debt service in the Paris Club;

(x) establishment of a framework with respect to official debt wherein interested developing countries, prior to debt renegotiations in the customary fora, would be enabled to consider with official bilateral and multilateral creditors as well as the relevant private creditors their economic situation and medium-term development objectives and prospects;

(xi) differentiating existing debt from new credit flows for the purpose of determining interest rates;

(xii) establishing, as appropriate, a relationship between the amount of debt service and the growth of GNP, and other relevant indicators of the economic situation of indebted developing countries such as commodity prices, thus adjusting debt service to the real payment capacity of each developing country;

(xiii) limiting debt service payments to a percentage of export earnings which would be compatible with the development needs and economic and social requirements of each indebted developing country;

(xiv) a moratorium of at least 5 years of debt servicing of both public and private lenders including the conversion of a substantial part of the debt service obligations of African countries into grants;

(xv) immediate and full implementation of Conference resolution 161(VI), Trade and Development Board resolutions 165(S-IX) concerning retroactive adjustment of terms and 222(XXI) concerning agreed features for debt reorganization;

(xvi) immediate implementation of the recommendations of the mid-term global review of the SNPA for the 1980s held in 1985;

(xvii) urgent adoption of more innovative solutions for the debt problems of developing countries. In this context, the problems of countries in Sub-Saharan Africa and of least developed countries should be paid particular attention. Such solutions should include long-term rescheduling on less onerous terms, the conversion of part of the debt into grants and, writing-off of the debt particularly for the least developed countries countries;

(xviii) inviting the creditor developed countries the multilateral financial, monetary and banking institutions to adopt urgently concrete measures in order to solve Africa's external debt problem at continental level.

(xix) unconditional provision by multilateral development lending institutions of debt relief measures for least developed countries, at least equal to their debt service obligations to these institutions;

(xx) parallel and equally intensive international action in view of a growth-oriented solution of the debt problem of heavily indebted developing countries;

(xxi) establishing with additional resources a new credit facility in the IMF to expand the CFF to alleviate the debt service burden caused by high real interest rates and other excessive servicing costs;

(xxii) setting up, within the IMF and other multilateral institutions, of new mechanisms to help those developing countries which, because of adverse exogenous factors, are not able to repay their obligations to these institutions according to a fixed schedule;

(xxiii) inviting the Trade and Development Board to review and monitor on a regular basis decisions and measures concerning developing countries debt.

F. POLICIES AND MEASURES AIMED AT SUBSTANTIALLY INCREASING THE FLOWS OF FINANCIAL RESOURCES FROM DEVELOPED TO DEVELOPING COUNTRIES PROVIDED BY MULTILATERAL INSTITUTIONS, EXPORT CREDIT AGENCIES, ODA DONOR COUNTRIES, THE BANKING SYSTEM AND FOREIGN INVESTORS. THESE MEASURES SHOULD, INTER ALIA, INCLUDE:

(i) easing the liquidity shortage experienced by developing countries by agreeing in the IMF on a new substantial SDR allocation totalling no less than 15 billion SDRs and ensuring the unconditional nature of SDRs as well as their link to the development needs of developing countries;

(ii) substantially easing the conditionality criteria of the international financial institutions ensuring that any co-ordination between the IMF, the World Bank and other multilateral financial institutions does not lead to cross-conditionality;

(iii) proceeding urgently with a general increase of the capital of the World Bank, whose volume, as a minimum, should enable the achievement of a lending growth rate of 6.5 per cent per annum in real terms;

(iv) reversing the decline in IDA resources through assuring their substantial replenishment and rise in real terms and preserving and improving the quality of IDA resources;

(v) ensuring a predictable and higher replenishment of the resource of IFAD through increased contributions of developed countributing countries;

(vi) urging the World Bank to mobilize additional resource commitments from donor countries for Africa;

(vii) strengthening the regional development banks of developing countries especially the African Development Bank and its Fund through inter alia increasing their capital while maintaining the essential development and regional characteristics of these banks, similarly there should be an increase in their funds and other concessional resources;

(viii) redoubling efforts by developed countries to achieve as quickly as possible the internationally agreed target of 0.7 per cent of their GNP for Official Development Assistance to developing countries as called for in the International Development Strategy for the Third United Nations Development Decade, full implementation by developed countries of their commitment to provide 0.15 per cent of their GNP as ODA to the least developed countries as called for by the SNPA. ODA should be placed on an increasingly assured, continous and predictable basis;

(ix) urging governments of developed countries to encourage their commercial banks to resume and increase lending to developing countries, specially in support of their own efforts to increase output and exports;

(x) enhancing the flow of foreign investments to developing countries in accordance with the development objectives set up by the host countries themselves;

(xi) increasing the flow of resources in real terms to African countries in accordance with the decisions contained in the United Nations Programme of Action for African Economic Recovery and Development adopted by the United Nations General Assembly on critical economic situation in Africa.

(xii) Addressing the leakages in the multiplier effect in developing countries by getting donor agencies to intensify the use of local expertise in developing countries in the execution of projects financed by loans or grants provided by developed countries.

C. POLICIES AND MEASURES AIMED AT ESTABLISHING AN EQUITABLE, STABLE AND DEVELOPMENT SUPPORTIVE INTERNATIONAL MONETARY SYSTEM. THESE MEASURES SHOULD INTER ALIA INCLUDE:

(i) early convening of the International Conference on Money and Finance for development with universal participation;

(ii) other parallel actions in view of the establishment of stable and responsive international monetary system, and in particular:

(a) effective multilateral surveillance to ensure equitable and symmetric international adjustment;

(b) concerted action for the supply of adequate international liquidity on an increasingly assured, continuous and predictable basis consistent with the growth requirements of the world economy and meeting in particular the needs of the developing countries;

(c) relaxing IMF's conditionality criteria from demand deflation to growth oriented adjustment;

(d) expansion of the Compensatory Financing Facility;

(e) continuation and further improvement of the enlarged access policy, necessitated inter alia by the inadequacy of quotas;

(f) advancement of the ninth review of IMF quotas in view of the fact that the eighth review fell short of requirements;

(g) increasing the voting share and level of participation of developing countries in the decision-making process of international monetary and financial institutions.

ITEM 8(B) OF THE PROVISIONAL AGENDA FOR UNCTAD VII
COMMODITIES

I. Review of the situation in the area of commodity trade

22. The importance of commodity exports for the African economies and their dependence on a few primary commodities for export earnings makes African countries particularly vulnerable to the elements of supply and demand as well as fluctuations in prices.

23. Africa's commodity exports are as follows: food and beverages about 55 per cent, minerals and metals, about 30 per cent agricultural raw material including tropical timber, about 15 per cent. Compared to other regions, tropical beverages which provide more than one-fourth of commodity export earnings are especially important Over the last 15 years the annual average growth rate of world trade has been particularly slow or negative for major export commodities of Africa. What is more important from the point of Africa is that there has been a general fall in the proportion of world exports of these commodities supplied by African countries.

24. Under the present economic conditions where various commodities are in an oversupply situation in the world market, the relatively slow growth of African production and exports has allowed other exporters to secure higher export earnings than they would have been able to, had Africa maintained comparable export growth rates.

25. The higher dependence of Africa on commodity trade poses serious problems of development in view of the low level of processing and manufacturing. Furthermore Africa's commodity trade continues to be governed by general world trends, in particular, those in developed industrialized countries which are the main market outlets for African exports. There are several factors explaining the commodity trends in Africa. One of them is the influence and mementum of technology, which has resulted in shifts in the international competitiveness of African commodities, both in the short and long run, with synthetics and substitutes.

26. Declining foreign exchange earnings in Africa have seriously curtailed the region's capacity to import. Promopted by the need to conserve foreign exchange, many African Governments were compelled to restrict imports, thereby curtailing development and the standard of living of their peoples. For a majority of African countries importing capital goods and other necessary inputs, this restriction on imports resulted in a crisis of under-utilization of existing capacities in both the agriculture and industry subsectors supporting agriculture. When export capacity was thus curtailed, there was a further drop in foreign exchange earnings.

27. Two-thirds of developing countries' export earnings come from commodities. One of the alarming features of the economic recession of the first half of the 1980s has been the persistent decline in the prices of primary commodities. Despite a short-lived world recovery in 1983-1984, the general trend for commodities has been a sharp down-wing. Thus, the annual average index in 1985 in current United States dollars was nearly 32 per cent lower than at the beginning of the decade, representing an annual average fall of 7.5 per cent. In real terms, this annual average represented 4.5 per cent annual decline which cumulated in 1985 to 20 per cent lower than in 1980. This declining trend has continued through 1986. According to the International Monetary Fund, real commodity prices in 1981-1985 average 7 per cent below the level of 1980 and 16 per cent below the average for 1960-1980. In terms of SDRs, by the final quarter of 1985, the price index for commodities was more than 10 per cent below the level of 1980. This fall in the index is the lowest level since the Second World War.

28. The major factors which have influenced commodity markets are both cyclical and structural. Cyclical factors include macro-economic policies of developed countries as reflected inter alia in exchange rate fluctuations and high real interest rates. Structural factors also include macro-economic policies of developed countries such as subsidies and support price mechanisms, protectionist measures as well as technological developments and substitution. All have contributed to the persistent downward fall of prices.

29. In addition to this, the developed countries have sharply curtailed their import needs through increased production of various commodities. Protectionist measures and other massive support policies for domestic producers as well as strategic objective have encouraged production and generated large surpluses of agricultural products and increased the stock of minerals and metals in the developed market economy countries, placing the commodities of developing countries at a competitive disadvantage and adversely affecting commodity prices.

30. In this connection, it is interesting to note that while developing countries have together earned about $US 75 billion annually from their agricultural commodity exports during the past few years, the United States, the European Economic Community and Japan have spent approximately $US 42 billion annually on their agricultural support programmes.

31. Protectionist measures introduced by the developed countries have shut-off commodity markets, as for example the EEC market for meat and the reduction of the sugar market in the USA through quota restrictions. Internal taxes on tropical products have also put these products at a disadvantage vis-a-vis the alternative products originating in the developed countries. Such taxes also have negative influences on the consumption of these products.

32. The economic recovery of the developed countries from the recession of the early 1980s was not strong or long enough to influence the commodity economy significantly. It therefore failed to carry with it a parallel increase in the level of aggregate demand of commodities and export earnings and import capacities of the developing countries.

33. Another factor which has forced down the prices of commodities was the deflationary policies of the developed countries which were launched as from the end of the last decade. The losses in export earnings incurred by developing countries, as a result of such policy measures, were directly linked to more than half the fall in the rate of increase in consumer prices in O.E.C.D. countries between 1980 and 1984 alone.

34. The sharp deterioration in the prices of commodities in contrast to the relative rise in the prices of manufactured products of developed countries resulted in considerable losses in the terms of trade of developing countries reducing the contribution of the external sector to economic growth and development.

35. It should also be stressed that exchange rate fluctions have disruptive influences on the prices of commodities and impose additional management and adjustment responsibilities on developing countries. Concerted economic action by the industrialized countries has led to the recent decline in the value of the US$ with respect to most major currencies. However, commodity prices have not reacted and remained acutely depressed. This has inflicted an additional burden on the African countries whose export commodities are mostly priced in this currency.

36. In this context and in view of the decline of prices and the subsequent shortfall in export earnings, a number of developing countries resorted to increasing their commodity exports in the hope of maintaining their import capacity and facing their financial obligations.

37. Globally, rising stock levels, with interruptions in 1979 and 1983, and increasing production have outrun consumption ever since 1973. Although there were some variations between the various product groups, the cyclical down turn in consumption was much more marked and the subsequent recovery failed to close the gap.

38. Competition over a narrow range of products in a limited and depressed market, therefore, often led to market gluts and consequently to price slumps.

39. There is a close link between commodity export earnings and the accumulation of debt and rising debt services. The fall in commodity prices and therefore the severe balance-of-payments difficulties of developing countries combined with escalated interest rates led to accelerated debt accumulation and heightened debt service payments. The high proportion of debt service

payments in relation to foreign exchange receipts of developing countries has limited their import capacities and thus investment and growth.

40. The cumulative loss of developing countries in export earnings due to the falls in the prices of non-oil commodities for the period 1980-1984 amounts nearly to $US 40 billion. This should be seen against the increasing burden of interest and amortization payments which exceeded $ 137 billion dollars during the same period.

41. In 1985, for example, debt service payments amounted to 132 per cent of commodity export earnings, demonstrating the crucial problem faced by developing countries in payment of their external debts and in impeding their growth and development. Apart from its social and political consequences, this situation has led to a lack of investment in the commodity sector, further reducing the competitiveness of the developing producing countries. Furthermore, the tariff escalation and non-tariff barriers which face the processed and semi-processed products from developing countries in developed country markets, constitute a major obstacle to diversification and industrialization efforts of these countries.

42. The fact is that developing countries have become net exporters of capital. The net transfer of financial resource from the developing countries to the developed countries rose more than tenfold from $ 7 billion to $ 74 billion between 1981 and 1985.

43. Given this alarming situation, any effort aimed at revitalising growth and development of developing countries should lend particular focus to the critical short-aand long-term issues of commodities.

II. Review of the Implementation of the Integrated Programme for Commodities

44. The IVth Conference of UNCTAD, in 1976, approved resolution 93(IV) containing the Integrated Programme for Commodities (IPC).

45. The two subsequent conferences adopted the following resolutions:

No. 124 (V)	On the implementation of the IPC - Omnibus resolution.

No. 125(V) and 157 (VI)	On compensatory financing of export earnings shortfalls.
No. 155(VI)	Implementation of the IPC in the area of stabilization and strengthening of commodity markets, and
No. 156 (VI)	Implementation of the IPC in the area of processing, marketing and distribution, including transportation.

46. Due to the lack of political will on the part of developed countries much of the envisaged actions still remain unfulfilled and progress since the last Conference has been particularly distressing.

II. A. Stabilizing and strengthening of commodity markets

1. Commodity Agreements and Arrangements Negotiated or Renegotiated in the Framework of UNCTAD

47. Ten years after the adoption of the IPC much still remains to be desired. Eleven of the eighteen products in the IPC are not covered by commodity agreements and only 3 of the 7 which are covered contain stabilization clauses.

48. Since UNCTAD VI, cocoa, rubber, olive oil, sugar and tropical timber have undergone processes of negotiation or renegotiation while the International Tin Agreement has collapsed. Agreements concluded earlier also cover jute and coffee - a product which is contained in the IPC but is not negotiated in the framework of UNCTAD. Among these is the International Coffee Agreement which has currently broken-u due to the intransigence of the main consumer countries ... thus causing havoc to the economies of many African, Latin American and Asian countries. Similar situations are threatening other important commodi ies also. These developments are a matter of grave concern to very many countries. Therefore the Conference urges that these agreements should be adhered to until the IPC comes into full effect covering all commodities. Although the IPC embraces a variety of stabilization and development measures, most of the progress achieved is in the latter aspect. In some cases, agreements providing for co-operation in development measures in areas such as productivity improvement, research and development including new end-uses, generic market promotion, market transparency and the like have been emphasized. It should be stressed that a variety of measures and mechanisms that would strengthen the commodity economy through market stabilization and product development need parallel emphasis.

49. The conclusions of the eleventh regular session of the Committee on Commodities (December, 1985) relate, inter alia, to supply management measures, buffer stock financing needs, producing and consuming countries supports in defending prices, structuring of price ranges relevant to the provisions of the IPC, need to address both development and stabilizations measures as appropriate, minimizing distruption while buying for and selling from non-commerical stockpiles.

2. Commodities not covered by ICAs

50. Intergovernmental work is at a standstill for most of the 11 IPC commodities not covered by ICAs - of which six are agricultural commodities (bananas, cotton, har fibres, vegetable oils, tea and meat) and five are minerals and metals (bauxite, copper, iron ore, manganese and phosphates). Furthermore, tin is also an addition to the above list since its Council has collapsed as a result of financing and over supply problems.

51. For some agricultural commodities discussions are in deadlock, in the case of others only limited progress have been achieved. This limited progress so far achieved relates essentially to the identification and elaboration of some developmental programmes and projects. However, even these programmes and projects could not be implemented for lack of financial resources.

52. In conformity with resolution 22 (XI) adopted by the Committee on Commodities, the Secretary-General of UNCTAD undertook some consultations with a view to convening ad-hoc review meetings before UNCTAD VII. However, no significant results have merged and the secretariat continues to pursue informal consultations.

3. The Common Fund for Commodities

53. The successful conclusion of the Agreement for the establishment of the Common Fund for Commodities on 27 June 1980 was undoubtedly one of the most positive steps taken to implement the IPC.

54. However, while the minimum number of 90 countries required to bring the Fund into operation has already been surpassed, the capital requirement has not yet been achieved. This is particularly because of the fact that some major

contributing countries have either not signed the agreement and/or they have not ratified it. In this connection, it is regrettable that the USA has announced its decision not to ratify the agreement.

II. B. Processing, Marketing and Distribution

55. In response to Conference resolution 124(V) the UNCTAD secretariat prepared four studies containing ideas and elements of a cross-commodity framework nature. Two of them outline general approaches to frameworks of international co-operation in the area of PMD, while the two recent studies elaborated the specific elements of the frameworks for international co-operation both in the field of processing and in the area of marketing and distribution. In addition, studies on particular aspects of the marketing of commodities were made available to the meetings, one on contractual marketing and the other on the operation of commodity exchanges.

56. The fourth session of the Permanent Sub-Committee of the Committee on Commodities and the second special session of the Committee on Commodities held in February 1985 were convened by the Secretary-General of UNCTAD pursuant to Conference resolution 156(VI), unanimously adopted at UNCTAD VI in July 1983. Conscious of the urgent need to facilitate the diversification of their exports and to increase the participation of developing countries in the processing marketing and distribution including transportation (PMD) of their export commodities, all States members of UNCTAD recognized in that resolution that it was necessary to accelerate the rhythm of negotiations on the issue.

57. The Permanent Sub-Committee, at its various sessions, discussed the nature and intensity of problems and remedial approaches, drawing lessons from studies on the PMD of individual commodities.

58. Progress of work on the elaboration of frameworks of international co-operation on processing and marketing was initially delayed by divergences of view between the Group of 77 and Group B about procedure. Group B's view was that the whole series of studies on the 18 commodities included in the provisional list of the Integrated Programme for Commodities would have to be completed before an evaluation of the cross-commodity problems was possible and the consideration of cross-commodity solutions could commence. The Group of 77 held the view that the cross-commodity nature of many of the problems adversely affecting developing

countries' increased participation in processing and marketing was already well known. It therefore urged that the secretariat proceed expeditiously with the preparation of draft frameworks of international co-operation but nevertheless agreed that work on a commodity-by-commodity basis should also continue.

59. The Committee at its second special session, discussed extensively the question of an elaboration of the elements of the frameworks for processing, marketing and distribution including transportation. No breakthrough was achieved, however, as regards an agreed approach to tackle the issue. The second special session ended with the Group of 77 and Group B individually submitting proposals. At the eleventh session of the Committee on Commodities a sessional committee was established to pursue the elaboration of the elements of frameworks. In the wake of further difficulties in achieving breakthrough a working pary was established to make further attemtps to elaborate the elements of the frameworks.

60. In accordance with Agreed Conclusion 24(XI), the Working Party on Processing, Marketing and Distribution, including Transportation, met from 29 September to 3 October 1986, to continue examination of the area of technical assistance and human resources development began during the eleventh session of the Committee on Commodities. The Working Party had before it a Report by the UNCTAD secretariat containing an examination of general and specific principles at the international level existing for the area under discussion, and of the principal avenues through which technical assistance and human resources development are stimulated at the national, regional and international levels. It also had a document containing replies from international organizations concerning their activities in the area under discussion. The Group of 77 submitted a paper containing proposed draft principles on technical assistance and human resources development on 29 September, 1986. However, the Group B countries demonstrated once again that they were not prepared to enter into serious negotiations and submitted a number of their own proposals requesting numerous studies to be made by the UNCTAD secretariat and an amount of information to be submitted by developing countries.

61. The UNCTAD secretariat by way of information made it clear that the studies requested could not be realized in any reasonable way in a limited time to enable work to continue before the VIIth session of the Conference. At the conclusion

of the Working Party's scheduled meeting Group B submitted a formal proposal to be annexed to the report of the Working Party.

62. The Working Party neither reached any reasonable conclusion nor made any progress in reaching any understanding as to how to pursue the matter.

63. It is, therefore, necessary to agree on a basis on which to continue the elaboration of the lements of the framework on PMD including transportation.

II. C. Compensatory Finance

64. Pursuant to the request of the United Nations Conference on Trade and Development in resolution 157(VI), an Expert Group on Compensatory Financing of export earnings shortfalls met in 1984. In its report, the Expert Group found that export earnings instability, when high and sustained over a long period, has adverse effects on the commodity producing sectors, the developing countries and the world economy as a whole and that in order to deal with commodity instability, policy measures should address the causes of commodity-specific supply instability and not just the effects. In consequence, the Group considered that a new compensatory financing facility was needed in order to help developing countries overcome commodity related export earnings shortfalls caused by all factors, including external ones.

65. An intergovernmental Group was created by the Trade and Development Board to discuss the roles and modalities of any additional complementary facility. The Intergovernmental Group met in July 1986 but did not complete its work. On that occasion, the Group of 77 while recognizing supply as a factor affecting commodity export earnings shortfalls, stated that demand, protectionism, and prices play a very important role among causes of this problem and should be addressed by a new compensatory facility.

II. D. Areas of the IPC in which no action has been taken

1. Access to Developed Countries Markets

66. Trade restrictive measures adopted by the developed countries have been major impediments for commodities in their natural or in processed and/or semi-processed forms. These restrictive measures include:

(a) Government support policies for producers in the developed countries,

(b) Tariff, non-tariff barriers and internal taxes.

67. Agricultural support policies of the developed countries provide incentives which have resulted in excess production of agricultural commodities. The financial cost of these support policies amount to almost two-thirds of developing countries' earnings from exports of agricultural commodities. These policies adversely affected agricultural producers of developing countries.

68. Tariff and non-tariff barriers - which include countervailing duties, import licensing, seasonal bans, voluntary export restrictions, explicit quotas, variable levies, sanitary regulations and size, quality, labelling and packaging regulations, and origin rules - are major impediments to developing countries trade.

69. The GATT Ministerial Conference in 1982 adopted a Declaration by which the developed countries were commited to a standstill and roll-back of their protectionist policies. However, a review of the situation since the adoption of that declaration proves that trade liberalization for commodity exports of developing countries has not taken place.

70. The Committee on Agriculture of the GATT had made a recommendation for an elaboration of conditions under which substantially, all measures affecting trade in agriculture would be brought under operationally more effective GATT rules with particular reference to improving access to markets and to bringing export competition under greater discipline including bringing export subsidies and other forms of assistance within the purview of effective GATT rules.

71. The "Punta del Este" Ministerial Declaration includes negotiations on agricultural, natural resource based and tropical products. While their inclusion among the major issues of the negotiation is a welcome development, there is, however, need for a greater degree of political will on the part of the developed countries to achieve the desired goals. The developing countries, therefore, should press the issue at every available opportunity.

72. Parallel to this is the question of access to developed countries markets for developing countries' resource-based processed and semi-processed products. The long-term solution to the problems of the commodity sector lies, inter-alia, in the industrial processing of commodities. Industrial processing will definitely depend for the short- and medium-term, at least, on the markets of developed countries. Thus, access to these markets is a decisive factor. In this context, tariff escalations as well as non-tariff barriers constitute major obstacles to industrialization efforts of developing countries.

73. The generalized system of preferences established with a view to granting favourable access to developing countries products on non-discriminatory and non-reciprocal basis has fallen far short of expections.

74. Expanded product coverage and tariff cuts, affecting particularly those products of export interest to the developing countries not adequately covered in the agricultural and industrial sectors and products of interest to the LDCs, have not been realized in order to gain optimum benefits from the opportunities offered by the scheme. Moreover, in spite of some appreciable improvements made by some developed countries in their schemes, many others have eroded the limited treatment they have extended to developing countries, including the withdrawal of preferences to some developing countries on various pretexts. Consequently, the proportion of dutiable imports receiving preferential treatment has stagnated at around an average of 25 per cent.

75. Market access for commodities and commodity-based manufactured and semi-manufactured exports of developing countries, is therefore, one of the most important areas of the Integrated Programme for Commodities in which appropriate action must be taken.

2. Diversification of Exports

76. The Integrated Programme for Commodities has, as its main objective, the diversification of production in developing countries, including food production, and the expansion of processing of primary products in developing countries with a view to promoting their industrialization and increasing their export earnings.

77. In view of the fact that concrete action has not been taken so far, new initiatives are justified by, at least, the following points:

(a) Developing countries have become net importers of food, particularly grains. Unless these countries are, at least, able to achieve self-sufficiency in food production the combined impact of food, energy imports and debt servicing will take the greater part, if not all, of their earnings from a limited number of export commodities.

(b) The excessive dependence of many developing countries, particularly the least developed among them, on one or two commodities has made them vulnerable not only to the vagaries of the commodity markets but also to various kinds of natural and man-made disasters. The more diversified the export-base, the less are the chances of damage to the terms of trade of developing countries, in particular the LDCs.

78. Such new initiatives should be relevant particularly considering the emphasis given by the United Nations Programme of Action for African Economic Recovery and Development 1986-1990, on laying the foundation on durable structural changes, improved levels of productivity and ensuring rapid recovery. Among the improvements envisaged in the external environment is, inter alia, increasing the capacity of African countries to process, market, distribute and transport their exports. This applies also to all non-African least developed countries.

3. Synthetics and Substitutes

79. The impact of substitution of natural products by synthetics and other substitutes has increasingly been felt during the last two decades. Dwindling demand patterns in the developed market economy countries have been experienced for all those agricultural and mineral products for which substitutes have been introduced. These commodities include sugar, cocoa, abaca, sisal, jute, wood, cotton, and minerals such as tin, copper and iron ore.

80. New technologies have produced savings on raw material use. The amount of raw materials used per unit of output has dropped for some commodities. Recycling of products has tended to reduce the demand for new primary products

as feed-stocks. These developments often took place behind protective shields and support programmes in developed countries.

81. Consequently, commodity exports of deveveloping countries have been impaired while technology has not been directed towards the development of new end-uses.

4. Disposal of Non-Commerical Inventories

82. The Final Act of the first session of UNCTAD stated that the sale of surplus inventories and stockpiles accumulated in developed countries should be effected in accordance with internationally determined criteria which would ensure that such sales do not distort international trade. It was subsequently agreed by the Committee on Commodities (Decision 4(V)) that disposals of strategic reserves and other non-commercial inventories of primary commodities should be conducted in such a way as to avoid or minimize the possible adverse effects upon the trade and development of producing countries as well as on commodity markets. To this end disposals were to be made in consultation with governments of producing countries and taking into account, among other factors, demand and supply conditions. At its sixth session UNCTAD considered the issue once again and in this sense adopted resolution 155(VI), paragraph 14.

83. Experience has shown that even small disposals of reserves have negative influences on prices. In the light of such experiences and in view of the fact that most, if not all, developed countries dispose of their stockpiles without due consultations with producers and in the light of large quantities of stockpiles held by the developed countries, both for strategic and non-strategic reasons, the threat posed by such holdings is real. Furthermore, there is the danger of simultaneous release of stocks.

III. Conclusions and Recommendations

84. There is a consensus view that a complex interplay of different factors has contributed to the present alarming trend in the commodity markets. Although it has been accepted that prices have been determined to a significant extent by

demand and supply conditions on individual commodity markets, macro-economic policies of the developed countries are mainly responsible for the negative developments that have been described in the foregoing chapters, and which include inter alia protectionism, subsidies and support price schemes, inflation first and then deflation, high real interest rates and volatile exchange rates. Also contributing to the down turn in prices were shifts in private and industrial consumption patterns. There are no encouraging signs that these policies will be changed in order to achieve a fundamental improvmenet in commodity prices in the foreseable future. Although many of the factors mentioned are structural they are, with the exception of the changes in consumption patterns, eminently reversible. The current trend towards less commodity intensive use in industry and technological changes towards substitute products should be addressed squarely.

85. In addition, the linkage between the situation in the area of commodities and debt crisis shows that only with a favourable international trade environment in the area of commodities, will developing countries be able to promote development and to face their financial obligations.

86. This present difficult situation of low commodity prices and the wide range of commodity related problems faced by developing countries fully confirm the continued validity of the objectives and international measures agreed to in resolution 93(IV) on the Integrated Programme for Commodities and makes even more urgent its implementation.

87. Market regulatory measures have not been effective enough to curb these negative price developments due mainly to the lack of resources to finance buffer stocks, excess supply of commodities from non-member producers and absence of quota mechanisms in certain ICAs.

88. Progress in respect of a multilateral framework has been rather at standstill. Nontheless, there is a common feeling that the problems confronting commodity-dependent economies are serious and that they must be urgently addressed. Since there is no simple answer to these complex problems of a structural and cyclical nature, a combination of measures need to be taken. These may include the following:

III. A. On International Commodity Agreements/Arrangements:

89. (i) The importance of commodity agreements/arrangements for stabilizing and strengthening commodity markets as well as for development objectives is indisputable especially in light of experience which shows that volatility in prices of non-ICA commodities has been much more than in ICA commodities. It is even more true that the objectives of ICAs are achievable if these agreements are supported by the necessary financial and political backing of the member States as well as with the full co-operation and respect of the operational arrangements of the ICAs by non-member consuming and producing countries.

90. (ii) Efforts to improve the operations of ICAs should continue unhindered, taking into account the conclusions reached at the 11th Session of the Committee on Commodities (Decision 23-(I). The nine-point conclusions, read in the light of the provisions of Conference resolution 93(IV), could serve as a valid guideline for international commodity negotiations.

III. B. On Commodities not Covered by ICAs and Arrangements:

91. (i) The UNCTAD secretariat should be requested to continue to undertake consultations, based on a schedule, with the principal as well as other interested producing and consuming countries of commodities not covered by ICAs and which are included in the indicative list of the IPC with a view to starting a new round of intergovernmental consultations for finding appropriate modes of dialogue and institutional arrangements according to the particular characteristic of each commodity. In any case, the interests of developing countries should be duly taken into account.

92. (ii) To urge all countries to participate, as producers or consumers, in the negotiations with the genuine desire to promote stability and balanced benefit sharing.

93. (iii) In situations where ICAs do not yet exist, co-operation between producers and consumers which have the effect of providing greater transparency, research and market promotion including new end-uses as well as remedial measures for special problems in the commodity field should be encouraged within the broader framework of specific price stabilization efforts.

94. (iv) We request that effective supply management should be undertaken by producers to bring supply and demand into a better balance and improve the prices of commodities exported by developing countries. Where required, this should include considerations such as longer term adjustment and rationalization of production. The international community should provide support through technical and financial assistance for the design and implementation of supply management policies. In particular, we appeal to industrialized countries to enter into commitments specifically for the facilitating of redeployment of productive capacities such as (a) specific targets for the composition of commodity imports in terms of minimum shares of processed form; and (b) international arrangements for reducing on a collective basis the cost of acquisition by developing countries of technology for local agricultural processing.

III. C. <u>On the Common Fund for Commodities</u>:

95. (i) Developed countries, particularly major contributors, must be strongly urged to sign and ratify the Agreement. Developing countries which have not yet done so should be requested to sign and ratify the Agreement Establishing the Common Fund for Commodities as soon as possible.

96. (ii) A meeting of ratifying countries should be called in 1988 to review the status of the Agreement.

III. D. On Processing, Marketing and Distribution including Transportation

97. (i) As can be noted from the activities undertaken in the area of PMD including transportation, it has become evident that there is no agreed perception as to how the elaboration of the framework for international co-operation in the field could be advanced. However, since regional groups have presented their proposals on the elaboration of the principles, negotiations should continue on the basis of ways to be identified by UNCTAD secretariat.

98. (ii) Increased technical and financial support for training, research and development activities in processing, marketing and distribution including transportation systems of developing countries. Establishment and strengthening of commodity exchanges in developing countries should also be encouraged.

99. (iii) With regard to general marketing, distribution and transportation, contexts the relevant points adopted under the Buenos Aires Platform may be emphasized once again.

100. (iv) Improvement in market transparency through the adoption of practical and administrative modalities for collection and dissemination of information on a non-discriminatory basis, including in particular access by developing countries to transborder data flows.

101. (v) Arrangements should be made for the development of model or guideline contract clauses for the sale and purchase of commodities of export interest to developing countries, including a system for evaluation of the use of commodity contracts in international trade.

102. (vi) Agreement on adequate provisions to ensure the participation of interested exporting developing countries in the management of terminal markets dealing with their export commodities, with a view in particular to control speculative activities on these markets and to ensure that the regulations governing these markets are not unilaterally modified against the fundamental intersts of developing exporting countries.

103. (vii) Greater participation by developing countries in the maritime transportation of their raw, semi-processed and processed commodities, including in particular availability of adequate finance in this regard.

104. (viii) To urge that all the above commitements should be negotiated and implemented wherever appropriate simul aneously within the framework of individual commodity negotiations and within global negotiations.

III. E. On Compensatory Financing of Export Earnings Shortfalls

105. (i) The magnitude of the shortfalls in export earnings of most developing countries has assumed crisis proportions during the first half of the 1980s and particularly since the sixth session of the Conference.

106. (ii) The need for an additional compensatory facility for export earnings shortfalls is much more justified today than ever before, not only due to the distressing present condition of commodity markets but even more so due to the bleak prospects of the market for the near future and for the medium-term.

107. (iii) Renewed interest in the subject by the Development Committee of the IBRD/IMF and the recent establishment by the EEC for non-ACP-least developed countries of a compensatory facility for export earnings shortfalls in the fashion of the Stabex system is a recognition of the serious consequences of earnings shortfalls to the commodity-dependent economies of developing countries.

108. (iv) The negotiations that have been going on since the sixth session of the Conference, on the basis of an expert study undertaken under the auspices of UNCTAD, have not produced any encouraging results as yet. However, the negotiations are continuing with enormous difficulties. Since the Group of 77 attaches great importance to this subject, the negotiations should be pursued with renewed determination. Thus the Group of 77 may urge the developed countries to engage in serious negotiations and to demonstrate their political will towards the realization of the proposed complementary facility.

109. (v) Meanwhile, existing compensatory facilities should be improved by ensuring prompt disbursement of compensatory finances and simplifying procedures and modalities of approvals as well as facilitating access to the IMF-CFF and reducing its conditionality and other limitations. Special arrangements should be made for the LDCs within the IMF-CFF, including full coverage of their shortfalls with more concessional terms and conditions for repayment of interest and principals.

10. (vi) Developed countries should be called upon to take urgent measures collectively and/or individually to provide compensatory finance to developing countries earnings shortfalls from commodity exports.

III. F. Areas of the IPC in which actions have not been taken

111. Some important areas of the IPC of particular interest to the developing countries have been obscured in the past due to the focal interest accorded to the other components of the Programme and particularly to the market stabilizing elements of the IPC. These include such crucially important secots as access to developed countries' makrets, diversification of exports, the impacts of synthetics and substitutes as well as disposal of non-commercial inventories on commodity markets.

1. Access to developed countries' markets:

112. Developed countries should be called on to implement the GATT Ministerial Declaration of 1982 and the Punta del Este Ministerial Declaration of 1986 by which they were committed to a standstill and roll-back of their protectionist policies. The application of the principle of differential and more favourable treatment in favour of developing countries should be assured.

113. Developed countries must be called on to cease forthwith providing subsidies and other forms of assistance to their domestic commodity producers and to their commodity exports and to eleiminate tariff escalation on commodities in their processed and semi-processed forms.

114. The Group of 77 notes the inclusion of agricultural, tropical and natural resources - based products in the Uruguay Round and expects that this inclusion will lead to the full liberalization of trade in these products of developing countries.

115. The principles of generalization, non-discrimination and non-reciprocity enshrined in Conference Resolution 21 (II) establishing the Generalized System of Preferences (GSP) should be reaffirmed. The developed countries must be urged to stop the introduction of restrictive and discriminatory practices in their preferential schemes.

116. The further liberalization, harmonization and the operational simplification of rules of origin is also an important component of market access which should be pursued by the Special Committee on Preferences.

117. The technical assistance project of UNCTAD gives useful opportunities to examine the GSP schemes and the rules of origin and should be encouraged. Thus, developed countries should be requested to generously make their voluntary contributions to the trust fund established within UNCTAD for this purpose.

> UNCTAD and International Trade Centre UNCTAD/GATT should reinforce their technical assistance to developing countries to help them to enhance their participation in world trade and to assist them in the areas of marketing and distribution of their processed raw materials

118. The UNCTAD secretariat may be requested to review all matters regarding international food trade including inconsistencies with respect to policies and measures in food trade, production and food aid and to examine its impact on food production and consumption pursuant to resolution 105(V).

2. Diversification of Exports

119. It has become evident from past experiences that the medium-term and long-term solutions to the commodity problems might have to go beyond price and earnings stabilization measures. While the latter measures are indispensable remedies, lasting solutions lie in enhancing structural adjustments and trade liberalizations.

120. The need for horizontal and vertical diversification of the exports of defeloping countries, one of the main objectives of the IPC, has recently been reaffirmed by industrialized countries and also emphasized by international organizations.

121. In light of this, and taking into account the present situation of low commodity prices and high debt ratios, the Group of 77 should request developed countries and multilateral funding organizations to take immediate action to ensure the provision of adequate financial resources on favourable and concessional terms for this purpose. More specifically in this context: (a) the capital base of international financial institutions should be strengthened; (b) a special facility for financing projects on expanding the primary commodity processing capacity of developing countries, particularly in the natural resources sector, should be established; (c)an indispensable component of such medium- and long-term finance should be technical assistance for feasibility studies and infrastructural development; (d) financing opportunities should be increased for the poorer and relatively smaller developing countries which are rich in natural resources but lack the capacity to mobilize private capital on their own initiative, especially the least developed countries.

122. At the same time, developed countries are further requested to ensure access to their markets for products of such financing.

123. The realization of this project will have multiple effects on the economies of the developing countries. Besides promoting a stable and self-sustaining economic base, its multiplier effect through employment creation and demand generation for further investments, as well as its potential for import substitution, is evident. This impact would undoubtedly go beyond national frontiers to bring positive influences on international trade.

3. Synthetics and Substitutes:

124. The competition by synthetics and substitutes continues to be a serious cause for concern. Developed countries should support the efforts of the developing countries to improve the competitiveness of natural products.

In this regard, support to research and development activities of developing countries and reductions and eliminations of tariff and non-tariff barriers for commodity-exports of developing countries affected by such developments, assistance to improve transportation and other infrastructural facilities, transfer of technologies etc., should be granted. Measures for promoting demand for natural products of developing countries, new end-uses, exchange of market information, structural adjustment measures do also contribute to the improvement of the situation and should be supported by developed countries.

125. UNCTAD, in close co-operation with FAO and other relevant institutions, should undertake a study on damage minimization and competitive improvement measures which could be taken by developing countries to counter the negative effects of synthetics and substitutes.

4. Disposals of non-commercial stockpiles:

126. Disposals of non-commercial stockpiles must be governed by an arrangement that would introduce discipline and avoid or minimize the possible adverse effects upon the commodity markets, in compliance with and furtherance of the principles agreed to in decision 4(V) of the Committee on Commodities.

127. Such an arrangement may follow the practice in the Food and Agriculture Organization of the United Nations. The functioning of the Consultative Sub-Committee on Surplus Disposals (CSD) under the supervision of the Committee on Commodity Problems (CCP) of the FAO had made possible an evolution of a set of principles as an effective international code of conduct of disposal of non-commercial inventories

128. The UNCTAD secretariat, in collaboration with the FAO and concerned international organizations should study similar arrangements for consultations and regulations of disposals of non-commercial stockpiles and call for a negotiating conference for this purpose.

5. The co-ordinating role of UNCTAD in the commodity field

129. The negotiating and co-ordinating role of UNCTAD in the area of commodities should be reaffirmed. UNCTAD should strengthen its function of promoting a general and integrated approach in the commodity field, thus improving the consistency and effectiveness of commodity policies in co-operation with other relevant institutions. Such actions should include review and exchange of information on various aspects of commodity policies and the monitoring of progress in the area of commodities. They should also include comparative evaluation of market systems and structures from the standpoint of their benefits and costs to developing countries as well as reports on the prospective global commodity situation in the long-term and on its implications for international action.

ITEM 8 (C) OF THE PROVISIONAL AGENDA FOR UNCTAD VII

INTERNATIONAL TRADE

1. Recent trends in international trade

130. It is worth recalling that the current economic crisis in Africa has not only been triggered by successive years of drought, but also by the unfavourable international economic conditions which caused a deterioration in terms of trade, heavy external debt burdens and inadequate financial flows. Progressively, African countries are getting less and less out of the international relations. The world adverse economic situation is particularly heightened by developments that tend to impair the capacity of many African countries to develop, let alone their ability to sustain the momentum of growth. The outlook for revitalising development and growth through interntional trade in commodities in a predictable and supportive environment seems rather bleak so long as the current unfavourable economic environment persists. These developments have had far-reaching devastating effects not only on investment and growth, but also in disrupting the maintenance of productive capacity and the general social economic infrastructure.

131. The value of developing countries' exports has further declined in recent years and their share in world exports continued to fall. In 1950, their share was nearly 31 per cent; in 1980, it was over 28 per cent. In 1985, it was 22.9 per cent. With regard to Africa its share of world export trade in 1980 was 4 per cent, and 3 per cent in 1985. The paradox in Africa's performance is shown by the fact that whilst its exports earnings had been declining its volume of export continued to increase.

132. There has been a sharp decline in the prices of commodities such as food, metals and oil. According to one estimate, in a single year (1985), that decline enabled the industrialised countries to save $65 billion in their purchases of these commodities. While this has assisted the developed coutries considerably in reducing inflation and obtaining an environment favourable for growth, it has seriously circumscribed the trade and payments situation of developing countries dependent on exports of these commodities.

133. In the sector of agricultural production, developing countries enjoy a clear comparative advantage, actual or potential. However, the major developed countries continue heavily to subsidise agricultural products by artificially supporting high prices internally, resulting in the accumulation of huge surpluses of agricultural products. Through these policies, the industrialised countries have not only denied or restricted access to their markets for agricultural exports from developing countries but also displaced such exports in the markets of third countries.

134. The rate of growth of developing countries' exports of manufactures has declined substantially in recent years. For the period 1973-1980, the rate of growth was as high as 23 per cent per annum. During the period 1981-1985, the average annual rate declined to 10.5 per cent. The corresponding figures for Africa were 2 per cent and -2.1 per cent respectively. These rates of growth, however, do not tell the whole story. The developing countries' share in the world export of manufactures has increased only marginally. The base in 1973 was extremely low, being only 6.9 per cent. In 1983, it increased to 11.7 per cent and in 1985 it stood only at 12.5 per cent. With such low levels of growth in the exports of manufactures it comes as no surprise that developing countries have failed to increase their share in the world production of manufactures significantly. In 1975, their share was 10.2 per cent. In March 1975 the Second General Conference of UNIDO adopted the Lima Declaration which set the target that the developing countries' share in the world production of manufactures should reach 25 per cent by the year 2000. In the decade that followed, that share improved by barely 1 per cent.

135. The situation of the least developed countries has been particularly unsatisfactory. These countries were unable to expand export volumes in any significant way over the decade of the 70s. The terms-of-trade losses have been very severe for these countries. In some cases, they have even experienced negative growth.

136. International trade is increasingly characterised by oligopolistic structures. It is estimated that 30 to 40 per cent of world trade takes place between parents and subsidiaries of transnational corporations (TNCs). In manufactures, the intra-firm trade of the transnational corporations has been a dominant feature of post-second World War trade expansion. In recent years, concentration of market power has continued to take place in major industrialised countries. Conglomerate mergers are taking place, giving birth to giant trading-house transnationals which handle trade in commodities, manufactures and the accompanying transport, insurance, export finance, banking and other related services. In some cases the principal trading agents are the transnational corporations engaged in agricultural, mining and/or manufacturing activities, including those organised on a vertically integrated basis. Such conglomerates enjoy unprecedented economies of scale and scope and are in a position to internalise uncertainties and consequent risks. They present a formidable structural challenge to late comers on the scene of international trade.

137. The dominant buying or selling power of the transnational corporations enables them to apply their own rules of the game and practices with the sole objective of maximising their 'economic space' and increasing their dominance. Market limitation, price-fixing arrangements and other restrictive business practices instituted by such entities have constituted impenetrable barriers to the expansion of trade of developing countries. The rules of the international trading system as they operate have little to offer by way of redress to this situation.

138. The extremely adverse international economic environment has further compounded the difficulties faced by developing countries on the trade front. Major developed countries have conducted their macro-economic policies without paying adequate regard to the seriously adverse international effect thereof, particularly for developing countries. Tight monetary policies and huge budget deficits have led to unusually high real interest rate levels, with the consequence of draining resources from developing to developed countries through increased interest payments and downward pressures on commodity prices. Disparity of interest rates amongst major developed countries has stimulated speculative capital movements and the consequential continuous misalignment of exchange rates. This has encouraged protectionist pressures within the developed market economies and has also enhanced uncertainty and costs for exporters from developing countries. While exports from developing countries are thus facing increasing impediments, the imperatives of debt repayment have constrained the expansion of trade by forcing on them a policy of import contraction.

139. Developing countries continue nevertheless to absorb 36 per cent of the exports of the United States and 19 and 44 per cent of those of EEC and Japan respectively, thus supporting more than 10 million jobs in these economies. Developed market-economy countries continue to enjoy an important surplus in their trade with developing countries in manufactures and non-fuel commodities. In trade in manufactures, they enjoyed a surplus of $100 billion in 1985. This has assisted developed countries considerably in containing and alleviating their unemployment problem.

II

2. Deterioration of trading environment

140. Recent years have witnessed the accentuation of protectionist actions in the major developed market economies. Increasing protections pressures have found expression in the introduction of new legislation, as well as vigorous administrative measures.

141. The accentuation of protectionist pressures in developed market economies has been precisely in those areas of manufactures where developing countries have a proven comparative advantage. The sector of textiles and clothing, the sector which historically provided the mainspring for industrialisation, has continued to fact a discriminatory, restrictive and wasteful international trading regime for more than two decades. The Multi-Fibre Arrangement, which has now entered fourth incarnation, has continually followed a path of retrogression. Its coverage has been extended from cotton to man-made fibres to wool and, by the latest Protocol of its extension, to all vegetable fibres. Over time, the Arrangement and the bilateral agreements concluded thereunder have resulted in a plethora of micro-mechanisms of administrative controls and ingenious ways of over-protecting the uneconomic and senile processes of production in the developed countries. The principles of comparative advantage, non-discrimination and free flows of trade subject only to tariffs have been conspicuous by their absence when it comes to exports of textile clothing from developing to developed countries. Evidence is not lacking to show that the continued existence of such arrangements gives rise to increasing pressures for similar arrangements in other areas of importance to developing countries such as steel, footwear, leather and consumer electronics. Unless these tendencies are arrested resolutely and in time, the international trading system would become a web of market-sharing arrangements rendering irrelevant the rules of non-discrimination and comparative advantage.

142. The international trading system is increasingly characterised by «an ambiance of indiscipline». Bilateral or plurilateral solutions are increasingly being sought outside the legal framework of international trade whenever trade friction develops among developed market-economy countries. There has been increasing resort to «grey area» measures like voluntary export restraints, orderly market arrangements, export financing and basic price systems by the major trading partners. These measures have continued to erode the multilateral trading system. Developing countries heavily dependent on trade either for maintaining their rates of growth or for securing the much needed foreign exchange for development have only Hobson's choice when faced with the possibility of such solutions being used. According to a recent GATT report, there were at least 93 such «grey-area» arrangements in existence in 1986. These arrangements covered a variety of products such as steel and steel products, machine tools, cars and other transport equipment, electronic products including semi-conductors, agricultural products, footwear, etc.

143. The United States Trade and Tariff Act of 1984 introduced a number of protectionist provisions of a far-reaching nature. Some of the amendments intended to counter the threat of «unfair» trade practices have introduced criteria which have adversely affected or even disrupted genuine trade flows from developing coutnries. Several investigations have been conducted or initiated against developing country exporters under different sections of the Trade and Tariff Act of 1984. In some instances, measures provided for under existing legislation were applied for the first time or used more frequently. In September 1984, EEC adopted

a new regulation intended to provide protection against «illicit commercial practices». This regulation is patterned on Section 301 of the United States Trade Act.

144. The Food Security Act was enacted in the United States in 1985. Under the new «Bonus Incentive Commodity Export Programme» (BICEP), exporters of agricultural products received bonuses enabling them to lower their prices in international markets. The enlargement of the European Community to include Spain and Portugal has resulted in the introduction of temporary quotas of oil seeds being imported into Portugal, a Portuguese commitment to purchase 15.5 per cent of its grain imports from the Community and the adjustment of Spanish import levies to Community levels.

145. In the period 1980-1985, the United States and EEC spent sums of the order of $60 billion on agricultural support programmes, and Japan spent over $51 billion for the same purpose during the period 1980-1983. The subsidy war has only escalated in the recent past, imposing unacceptable losses on the efficient developing country exporters of products such as wheat, meat and sugar.

146. Another disturbing feature of recent years has been the moves away from multilateralism on the part of major trading nations. Bilateral, sectoral and regional initiatives have been taken by them which could further weaken the multilateral trading system, such as it is. In the context of the recent surge of protectionism in some developed countries, the concepts of bilateral balance of trade and regional trading arrangements seem to be acquiring a degree of respectability. This signals danger, recalling to mind the system of trading blocks prevalent in the colonial period of the 1920s and 1930s.

147. Equally disturbing is the gathering evidence of deviation form multilaterally agreed principles governing the trading system, including the erosion of the cardinal principle of more favourable and differential treatment for developing countries. This latter principle has acquired a legal basis in Part IV of the General Agreement on Tariffs and Trade, as well as the Agreement Relating to the Framework for the Conduct of International Trade reached in the Tokyo Round of multilateral trade negotiations. Its observance in concrete trading relations, however, leaves much to be desired. The Multi-Fibre Arrangement is indeed its antithesis. The recent prolongation of this Arrangement is a glaring instance in point.

148. The principle of non-reciprocity which is as valid today as it was years ago when it was first recognised has come under increased questioning on the part of certain developed countries. Demands are being made for reciprocal exchange of concessions. Moreover, the rationale of treating developing countries as belonging to one category is also being questioned. The disparity between the developed and developing countries has only increased over the last two decades. The combination of adverse circumstances has resulted in stagnation in or reversal of rates of growth in a number of developing countries and has also caused a reverse flow of capital from developing to developed countries. If anything, these developments would only reinforce the rationale of differential and more favourable treatment in favour of developing countries. However, precisely at this juncture, some developed countries have chosen to emphasize the theme of graduation in the context of trade relations and exchange of trade concessions.

149. The generalised system of preferences (GSP) has recently suffered erosion in its basic principles of non-discrimination and non-reciprocity. The United States Trade and Tariff Act of 1984 has introduced unilateral and arbitrary criteria for the determination of GSP benefits to developing countries. The discretionary criteria so introduced are not trade-related and are quite alien, too, to the spirit and purpose of the GSP. The factors to be considered in determining the level of GSP benefits include the extent to which the beneficiary country has taken action to reduce trade-distorting investment practices and policies and to reduce or eliminate barriers to trade in services and whether the such country has granted internationally recognised workers' rights. The conditioning of GSP benefits on the extent to which reciprocal action is taken by the beneficiary volates the international understanding on which the GSP was based. The fact that such benefits are being sought in fields other than those related to trade in goods renders these criteria even more unacceptable.

150. The most serious development in the trade policy area in recent years has been the tendency on the part of some developed countries to seek linkages between trade in goods and other matters such as developing countries' policies in regard to foreign direct investment, protection of intellectual property, services and fair labour standards. Trade, which is a means of self-reliant development, is in danger of becoming an instrument in the hands of certain developed countries for imposing unacceptable linkages on developing countries dependent on trade.

151. In this context, action in the area of trade policy taken by some developed countries for non-economic reasons also cannot be ignored. The United Nations General Assembly has condemned the unilateral and collective imposition of economic and trade sanctions for political reasons against developing countries and yet, regrettably, these pressures continue to be applied.

3. Lack of progress in the implementation of commitments

152. The subject of protectionism and structural adjustment has been at the centre stage of discussions, review and negotiations in UNCTAD since the fifth session of the Conference. The subject was addressed in depth in UNCTAD VI in 1983. Resolution 159(VI) reaffirmed commitments on standstill and roll-back and called upon the developed countries to review their existing trade legislation, regulations and procedures relating to anti-dumping and countervailing duties, in order to assure themselves that there are no unjustifiable impediments to the trade of other countries, in particular to that of developing countries, and to take remedial action as appropriate. It provided that the Board should follow closely the ongoing work in the GATT on a comprehensive understanding on an improved and more efficient safeguards system to be based on the principles of GATT and assist developing countries to participate fully in the process. The resolution visualised that the Trade and Development Board, in its annual review, should monitor the implementation of commitments and, where necessary, should formulate appropriate recommendations concerning the general problems of protectionism. In regard to structural adjustment it provided for continuation of annual review of patterns of production and trade in the world economy. The review was intended to provide a forum for discussions of the experiences of member countries with regard to structural adjustment. It was also intended to review and monitor trade developments and, where appropriate, make general policy recommendations. Specifically, it was decided that the annual review should give consideration, inter alia, to:

(a) Policies and ways and means to facilitate structural adjustment;

(b) Identification of trends in all factors important to structural aj adjustment;

(c) Strengthening the participation of developing countries in agro-industrial production and trade; and

(d) Special problems and needs of the least developed countries.

153. The recent trends in international trade and the deterioration of the trading environment clearly bring out the widening hiatus between the commitments made and their implementation. Commitments have been taken repeatedly at the political level on standstill and roll-back within and outside the forum of UNCTAD. The actual performance, however, in the trade policy area has been far short of these commitments. The Ministerial Declaration on the Uruguay Round of multilateral trade negotiations embodies the latest such commitments solemnly undertaken at the Ministerial level by the Contracting Parties of GATT. It remains to be seen how far these commitments will be observed in the months and years to come. Recent developments in the United States give rise to some cause for concern, coming as they do soon after the adoption of the Uruguay Declaration. The imposition of an import surcharge disguised in the form of a 'Customs User Fee' and the introduction of a discriminatory tax on the import of crude oil and petroleum products may only be straws in the wind. In the wake of burgeoning trade deficits, the United States Administration is now reported to be engaged in forging a bi-partisan legislative initiative in the area of a comprehensive trade policy. It remains to be seen how far the measures intended to enhance American competitiveness and promote 'fair' trade would be distinguishable from a series of earlier protectionist initiatives in the United States legislature.

154. In recent years, there has been increasing incidence of anti-dumping and countervailing duty investigations in major developed country markets against imports originating from developing countries. Although these actions are ostensibly initiated to counteract alleged unfair trade practices, more often than not they lead to harassment and disruption of trade. While conference resolution 159(VI) called upon the developed countries to review their existing trade legislation, regulations and procedures relating to anti-dumping and countervailing duties with a view to removing impediments to the trade of developing countries, the latest evidence goes to show that, in some cases, the legislation and procedures have been amended so as to widen the scope of application even beyond multilaterally agreed principles and concepts.

155. While strict implementation of standstill and roll-back commitments would go a long way towards restoring the credibility of the international trading syste, the proper functioning of the system can be ensured on a long-term basis only by forging a comprehensive understanding on safeguards. The need for such an understanding based on the principles of GATT was recognised in resolution 159(VI). Efforts to reach such an understanding did not yield results in the Tokyo Round of MTNs, or even later in the course of implementation of the GATT Ministerial Work Programme of 1982. The exerise has now been again reactivated under the auspices of the Uruguay Round of Multilateral Trade Negotiations. The importance of this exercise cannot be overemphasized, particularly from the viewpoint of the developing countries, which constitute the weaker trading partners. It remains to be seen whether the major trading entities will muster enough political will to reach expeditiously a comprehensive understanding on safeguards on the basis on the MFN principle. The contrast between the repeated political pronouncements and failure to achieve results in this area is too glaring to be ignored.

156. The annual review of protectionism and structural adjustment is expected to give attention to the strengthening and participation of developing countries in agro-industrial production and trade. The studies carried out by the UNCTAD secretariat have clearly brought out the need for reinforced international co-operation to strengthen agricultural and agro-industrial production in developing countries and increase market access for their agro-industrial products. The studies also show that the market shares of developing countries in most agro-industrial products (raw and processed products combined) imported by developed market-economy countries have declined, particularly in cotton, cocoa, sugar, rubber, meat, copra and jute. In particular, the African countries have experienced negative growth in production and stagnation in exports in food and agriculture. Two areas of trade policy measures have crucial significance from the point of view of strengthening the participation of developing countries in agro-industrial production and trade. The tariff escalation and the intensification of non-tariff measures at higher stages of processing practised by the developed importing countries have hampered the development of higher - value-added export - oriented production. Secondly, the resort to large-scale subsidisation of agricultural and agro-based production has proved detrimental to the development of agricultural and agro-based industry in developing countries. The objective of strengthening the participation of developing countries in this area of production and trade cannot be realised unless these problems are addressed squarely and appropriate trade policy measures formulated.

157. The two reviews of protectionism and structural adjustment that have taken place so far in the UNCTAD machinery have proved useful and have highlighted the continued problems being faced by developing countries in international trade. While these reviews were geared to the objectives stated in Conference resolutions 131(V) and 159(VI), their approach and content was necessarily conditioned by the broad mandate elements elaborated in the relevant Board resolutions. Considering the need to reduce effectively and expeditiously the gap between commitments and action, it is essential to explore ways and means of making the instrument of the annual review more effective. It is also equally necessary to devise a coherent, comprehensive and universal framework for analysis of the situation and trends and for concrete action towards halting and rolling back protectionism and eliminating trade barriers. With this end in view, the Group of 77 put forward a coherent and concrete plan of action for adoption at the thirty-second session of the Trade and Development Board in the form of a draft resolution (TD/B(XXXII)/SC.II/L.2 dated 13 March 1986) tabled in Sessional Committee II. This draft resolution c contained, inter alia, supplementary guidelines and suggestions for dissemination of information contained in the UNCTAD Data Base on Trade Measures amongst member States as quickly as possible, suggestions for strengthening the mechanism for formulation of recommendations and their implementation and substantive action in the area of standstill, rollback, etc. Regrettably, there was no response to these concrete proposals from developed market-economy countries.

158. The GSP which came into being as a result of the decisions taken at the second session of the Conference, cannot yet be said to have achieved the objectives for which it was set up. The proporation of dutiable imports receiving preferential treatment has been stagnating at about an average of 25 per cent. Some schemes have failed to observe fully the basic principles of non-discrimination and non-reciprocity. There is a growing tendency to use the GSP as an instrument of

bilateral negotiations. The limited life span of GSP schemes and their non-permanent nature introduces a significant element of uncertainty for investor-expors in developing countries. Some preference-giving countries are resorting to product-specific and country-specific graduation, ostensibly for the sake of a better distribution of gains among beneficiaries. The studies made by the UNCTAD secretariat, however, suggest that this presumption is not correct; denial of preference on these grounds to major beneficiaries hurts those countries' export performance while failing to help the exports of smaller beneficiaries. Linkages are being sought from the beneficiaries in contravention of the principle of non-reciprocity, and that, too, in areas unrelated to trade in goods.

159. The United Nations Conference to Review all Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices was convened in November 1985. At this Conference, the Group of 77 submitted a draft declaration for adoption which contained specific proposals. These proposals called for standstill and roll-back in regard to restrictive bu business practices affecting imports from developing countries and repeal of legislative and administrative measures which permit or encourage the use of such practices. They also called for greater transparency in regard to restrictive business practices and the strengthening of notification procedures. Further, they also called for the establishment of a Special Committee on Restrictive Business Practices within the framework of UNCTAD to perform the function of monitoring the application of the Set of Multilaterally Agreed Principles and Rules. The proposals also called for continuation of the work at the international level towards establishing a legally binding framework for control and elimination of restrictive business practices in international trade. This Conference ended in failure.

160. Resolution 159(VI) incorporates a far-reaching decision on the review and in-depth study of developments in the international trading system. The resolution provided that the Trade and mevelopment Board make recommendations on principles and policies related to international trade and further that the Board make proposals on the strengthening and improvement of the system with the aim of giving it a more universal, dynamic and development-oriented character. No substantial progress has been achieved in the implementation of this deciaion.

4. Threat to the mandate of UNCTAD in the trade area and the strategic objective of UNCTAD VII

161. The preceding review of the recent trends in international trade, the deterioration in the trading environment and a virtual stalemat in the permanent machinery of UNCTAD raises some fundamental questions. These are symptoms of a deeper malady. The «initial conditions» of the international economic system as embodied in the Bretton Woods institutions have changed over the last decade and a half. This has produced a state of disequilibrium in international economic relations. This disequilibrium appears to have shaken the international consensus on trade and development. A reaction has set in which seems to take an almost mechanically contrary view, calling in question the basic approach which brought UNCTAD into being.

162. The question faced is whether the fundamental changes that have occured in the world economy necessarily lead to the invalidation of the basic UNCTAD approach. To find an answer to this question, it is necessary to look at the kind of changes that have transformed the international economic scene.

163. Reference has been made to some of these changes, particularly in the area of trade in the review of recent trends and the deterioration in the trading environment. More fundamental changes that have taken place are in terms of greater inter-penetration of national economies; the energence of multipolarity in international economic relations; and a new technological revolution calling for re-examination of the theoretical foundations of the international economic system. The very nature of these changes suggests a greater need for multilateralism and international co-operation. Also, the very complexity of the situation points to the inappropriateness, if not irrelevance, of economic models based on harmonious, steady growth paths as possible outcomes of market processes. If we seek a balanced, conflict-free and relatively even development process, then, in all probability, we would need to consciously plan for it. The basic approach which brought UNCTAD into being is nearer to this perception.

164. General Assembly resolution 1995(XIX), which established the United Nations Conference on Trade and Development, has spelled out the mandate of the organisation with clarity and vision. It is worth recalling that a preambular paragraph of the resolution noted the «widespread desire among developing countries for a comprehensive trade organisation». The principal functions of the Conference, as defined in the operative paragraphs of the resolution are, inter alia, to promote international trade, especially with a view to accelerating economic development; to formulate principles and policies on international trade and related problems of economic development, to make proposals for putting the said principles and policies into effect and to take such other steps within its competence as may be relevant to this end; to initiate action, where appropriate, in co-operation with the competent organs of the United Nations, for the negotiation and adoption of multilateral legal instruments in the field of trade.

165. Through the 1960s and 1970s, the mandate of UNCTAD evolved to give it a coherent and an increasingly comprehensive character. This period witnessed the development of the negotiating role of the organisation in the area of trade, and particularly in the field of commodities, restrictive business practices and trade-related activities such as transfer of technology and Shipping. The recent experience of stalemate and inaction arises not so much out of any inadequacy or inappropriateness of the mandate or the organisational structure or the negotiating mechanism. Rather, it is on account of the prevalence in certain quarters of preconceived ideologies questioning the very basis of multilateralism and the need for better management of the world economy through intensified intenrational co-operation in the area of trade and development for bringing about more equitable and harmonious international economic relations.

166. Attempts are being made to shift the focus away from trade policy issues and trade negotiations and instead to focus the debate in the organisation on the autonomous development policies pursued by developing countries. These attempts to shift the focus have to be seen in the above context. These attempts not only aim at the derailment of the mandate of UNCTAD they also seek to dispense with the

basic approach underlying the UNCTAD philosophy. The lack of progress in the trade area in UNCTAD and the systematic attempts to transpose the dialogue on trade and development to less universal and narrowly conceived forums merely to go to confirm this.

167. UNCTAD VII offers the much needed opportunity to reaffirm the validity of and the need for continuing with the basic approach informing UNCTAD. In this context, the major role of UNCTAD in the years to come should be that of continuing to provide a universal forum for bringing about the establishment of a truly international trading system with the major aim of facilitating self-reliant development of developing countries. UNCTAD, with its mandate, character and history, is the only forum in which to forge a trading system which is truly non-discriminatory, universal and comprehensive. Moreover, its unique cross-sectoral and interdisplinary approach is ideally suited for developing such a trading system as part of the harmonious and equitable reconstruction of international economic relations.

168. To this end, the opportunity offered by UNCTAD VII should be harnessed to forge a new international consensus on the objectives of development and employment. Such a consensus would provide a firm foundation for the renewal of multilateral co-operation in trade and development.

169. It is obvious that this task cannot be treated as a subcategory or an automatic outcome of the Uruguay Round of Multilateral Trade Negotiations. Structurally as well as substantively, the MTNs suffer from many shortcomings. The successful conclusion of these negotiations is a necessary condition for the evolution of a truly international trading system. However, such a system cannot be expected to emerge as a natural, much less inevitable, consequence of the multilateral trade negotiations.

5. Specific policy measures suggested for adoption

170. The concrete way to realise the strategic objective of UNCTAD VII would be to adopt a set of specific policy measures and decisions which would help translate the approach outlined in the preceding section into a programme of action. Such a programme of action should put an end to the chapter of stalemate and inaction in the organisation. It should carry on important tasks which have already been part of the organisation's mandate and work. It should also launch new initiatives in a longer perspective. To this end, the member countries of UNCTAD should adopt the following specific policy measures and decisions:

(a) A Commitment to be taken in UNCTAD VII to start work on a blueprint for a universal, non-discriminatory and comprehensive trading system. The system should be development-oriented: special treatment in favour of developing countries vis-à-vis developed trading partners should be an integral part of the system and not conceived as an exception. It should take into account the special problems of the least developed countries. It should aim at equitable distribution of gains of trade to all. It should remove the distortions prevalent in the present system. The system should be fully responsive to development objectives

in the area of commodities. It should provide built-in redress in respect of restrictive business practices, particularly those of transnational corporations. this . . work will have to be carried on in the perspective of its interrelationship with other relevant areas such as international monetary and financial issues, technology transfer and services. Such a system should be seen as part of a new paradigm of harmonious and equitable international ecoonomic relationship. To this end, it should be founded on the new international consensus to be generated on the objectives of Development and Employment;

(b) A decision should be taken to undertake specific work to provide inputs for the multilateral trade negotiations, particularly in the area of the roll-back of protectionism and a comprehensive understanding on safeguards based on the MFN principle;

(c) Reaffirmation of the commitments on standstill and roll-back, particularly in the context of the recent departures, in letter or spirit, from the commitments undertaken in the Uruguay Declaration;

(d) Commitment on the part of the developed countries to set up a transparent and independent mechanism at the national level to monitor the observance of the standstill and roll-back commitments. This body should examine the need for protectionist action sought by firms/sectors and the implications of such action for the domestic economy as a whole. The periodic reports of such a body would facilitate the task of the Sessional Committee of the Trade and Development Board in monitoring the implementation of standstill and roll-back commitments;

(e) Commitment on the part of developed countries to set up a transparent and independent mechanism at the national level (i) to draw up programmes for facilitating structural adjustment in sectors of particular export interest to developing countries; (ii) to monitor the implementation of such programmes; and (iii) to report progress periodically to the Sessional Committee of the Trade and Development Board;

(f) Commitment to liberalize agriculture trade by eliminating restrictions and distortions, particularly those regarding non-tariff and tariff barriers and subsidized exports by industrialized countries. Greater liberalization in this field should be achieved by bringing all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines;

(g) Commitment to liberalise the trade regime in textiles and clothing by removing discriminatory restraints on exports from developing countries and to integrate the regime into GATT on the basis of strengthened GATT rules and disciplines;

(h) Commitment to be taken on continuation and improvement of the GSP without any impairment of the multilaterally agreed principles on which it is based as well as on support for the technical assistance programme on the system;

(i) The special problems of the least developed countries should be kept in view while undertaking the tasks mentioned above;

(j) Commitment to be taken to bring RBPs, particularly of TNCs, squarely within the operation of the trading system through (i) an obligation in regard to transparency and consultation procedures; (ii) establishment of a Special Committee on RBPs within the framework of UNCTAD to perform the function of monitoring and application of the multilaterally agreed Set of Principles and Rules; and (iii) continuing the work towards establishing a legally binding framework.

(k) Repudiation of unwarranted linkages such as those between the observance by developed market-economy countries of trade policies and norms already agreed upon multilaterally in regard to trade in goods and concessions in areas such as investment, intellectual property and services demanded by them from developing countries.

(l) On the question of services, the UNCTAD secretariat should be asked to continue its work in order to analyse, from the point of view of developing countries and in the context of development, the implications of the issues being raised in the context of trade in services by developed countries. The objective is not "liberalisation" of, or removing "the barriers" to, trade in this area. Rather, it is ascertaining the need for an elaborating the immplications of a multilateral framework for services. For developing countries, the issues of transfer of technology and the RBPs of TNCs, among others, are of paramount importance in the area of services. The UNCTAD secretariat should be asked to analyse the wider implications of any international regime governing trade in services. These implications should include political, cultural and security aspects.

171. The revolutionary changes in telectommunications and telematics provide a new and easy medium for transactions in services around the globe. More often than not, new technologies are making national borders irrelevant. The problematique for trade in services has to take this into account. An imitative approach based on the GATT problematique which is pertinent to trade in goods and based on the traditional concept of national border and movement of goods across such borders may not be relevant or adequate for the trade in services. The UNCTAD Secretariat should be asked to evolve an appropriate problematique for trade in services.

172. Support should be provided by the international community through, inter alia the operational activities of the United Nations system to the reactivation of the trade liberalization and other integration and co-operation processes of developing countries at the subregional and regional levels, including co-operation at the level of the state and non-state enterprise sector.

RELATING TO THE UNDERSTANDING ON ITEM 8 (c).-
INTERNATIONAL TRADE OF THE PROVISIONAL AGENDA FOR UNCTAD VII

ISSUE ARISING IN TRADE RELATIONS AMONG COUNTRIES
HAVING DIFFERENT ECONOMIC AND SOCIAL SYSTEMS

Review and assessment of recent trends

173. The crisis in the world economy has continued unabated since the beginning of the 1980s. There have been some signs of recovery in the developed market-economy countries but growth rates and investment have remained sluggish. International trade and financial relations have also become increasingly strained, thus adversely affecting all trade flows. The socialist countries have also been affected owing to the interdependence of all trade flows and economic influences, and their growth rates have shown a downward trend. For the developing countries, the situation is rather alarming consequent to the collapse of commodity prices, the sharp decline in oil prices and the continued demand weakness of the developed countries. Further, declining export earnings, recurring trade deficits and servicing of external debts have further aggravated the situation for developing countries. The trading environment of developing countries continues to deteriorate and future prospects seem to be bleak and uncertain.

174. UNCTAD, as a universal organisation, has succeeded in elaborating multilateral guidelines and criteria with a view to assisting the member countries in developing trade and economic relations among countries having different economic and social systems. This is within the framework of the mandate given to UNCTAD by General Assembly resolution 1995 (XIX) and subsequent resolutions and decisions adopted by UNCTAD. These resolutions aimed at, and in fact contributed considerably to, the achievement of greater harmony of policies and performance relating to issues of trade and economic co-operation between different groups of countries.

175. The increase in world trade is one of the key indicators of cyclical recoveries. The trade exchanges in the 1980s have been less vigorous than in the 1970s. It is observed from UNCTAD's documents that during the 1970s there was a very dynamic growth of trade between socialist countries and the developed market-economy countries, but during the 1980s there was a downward trend. This adverse development in East-West trade is attributed to the reduced flows of oil and oil products from the socialist countries and to the fall in the related prices in the latter half of 1985.

176. As regards East-South trade, it is observed that between 1970 and 1985 trade turnover between the two groups of countries increased on average by 13.9 per cent annually, with exports of developing countries increasing by an annual average of 14.8 per cent and imports by 13.2 per cent. During the period, the share of developing countries in the total trade turnover of the socialist countries increased from 15.2 per cent in 1970 to 19.3 per cent in 1985, with a peak share of 22.6 per cent in 1982. The socialist countries, on the other hand, have a modest share in the developing countries' trade, ranging between 6 and 8 per cent. The USSR continues to be the leading trading partner of the developing countries among the socialist countries of Eastern Europe, accounting for about 64 per cent of both exports to and imports from developing countries. The share of the developing countries in the overall trade of the socialist countries seems to have stabilized at around 20 per cent. The deficit in the balance of trade of developing countries registered a decline in 1985, which is a welcome trend. The volume of trade turnover continues to be small and not at all commensurate with the economic and trade potential of the two groups of countries. As regards the composition of exports and imports, there is still much room for improvement. The share of processed and manufactured goods in exports of developing countries continues to be small and there is a need for intensive efforts to enhance that share. There is also substantial scope for developing new forms of economic and technical co-operation with a trade-creating potential.

177. It is noted that in the area of trade and payments, credits and economic co-operation, UNCTAD resolutions have provided guidelines and recommendations involving the adoption of measures conducive to the expansion and diversification of trade and economic relations between the countries concerned, particularly the enhancement of the export sector of developing countries and the acceleration of their economic development process. It is recognized that the implementation of resolutions has no doubt contributed to the achievement of a dynamic and sustained flow of trade, as well as the realization, in developing countries, of numerous projects in a number of priority areas. East-South trade and economic relations have thus been accentuated and reinforced through the implementation of resolutions and decisions of UNCTAD regarding inter-system trade. In view of the interdependence of all trade flows, it is considered that the expansion of trade and economic relations between East and West would positively affect the expansion of international trade as a whole, including East-South trade.

178. It has been observed that, since the last Conference in 1983, UNCTAD has enlarged the scope of its activities and intensified its efforts in the area of trade relations among countries having different economic and social systems. Considering the growing interdependence among countries, confidence-

building and economic security in international economic relations have assumed importance in inter-system trade. The Group of 77 welcomes the initiatives undertaken by Sessional Committee II of the Trade and Development Board and particularly the ad hoc group of experts meeting held in 1984, as per Board decision 276 (XXVII) to consider ways and means of expanding trade and economic relations, including studying the outstanding issues referred to in Conference decision 145 (VI), between countries having different economic and social systems, in particular between developing countries and socialist countries of Eastern Europe, especially new forms of co-operation favourable to the development and exports of the developing countries. The Group of 77 is also pleased to note that the documents and studies prepared in accordance with Board decision 321 (XXXI) contain valuable information and cover many important aspects and issues related to inter-system trade, particularly East-South trade. The Group of 77 has also taken note, with satisfaction, of the findings and proposals of the ad hoc group of experts convened in Geneva in January 1987 in accordance with Trade and Development Board decision 321 (XXXI).

179. As regards prospects for East-West-South trade in the remaining 1980s, the position remains uncertain in the context of the current international economic environment. There are constraints and problems to be overcome to restructure the composition of exports and imports and reinforce the elements of stability and predictability in trade exchanges in order to achieve sustained expansion and diversification of trade and economic relations among different groups of countries. In respect of East-South trade, major problems that remain to be solved are the low level of diversification of the developing countries' exports to socialist countries and the fact that the bulk of this trade still involves only a limited number of developing countries. Experience, however, suggests that there are, in principle, good prospects for further growth of trade and economic relations between the two groups of countries.

180. The socialist countries of Eastern Europe, which are responsible for one-third of the total world industrial output, are already playing a significant role in the world economy. The recent process of modernization of the foreign trade system and management, structural adjustments and reforms in their economies, as well as various changes in their economic and foreign trade policies in accordance with the requirements of their national economies and the evolution of the international environment - all these trends offer potential for expanding and diversifying their trade and economic relations with all groups of countries. These developments could bring forth innovations in their economic relations and enable them to play a more effective role contributing to the better functioning of the world economy and

in particular the development processes of developing countries. There is, however, an urgent need for a new approach and concerted efforts on the part of all groups of countries to adopt constructive policy measures and initiatives to eliminate and overcome all impediments and obstacles in order to ensure the smooth expansion of inter-system trade flows.

181. The present international economic order has long been dominated by the developed market-economy countries. There is now, however, a growing recognition of the weight and influence of the socialist economies and of the economies of the developing countries. These two groups of countries constitute important segments of the world economy, but at the same time in an increasingly interdependent world they cannot escape the influences of an adverse international economic environment. Through intensive trade and economic co-operation, however, they can make a constructive contribution to correcting the inequitable operation of international markets and pave the way for an expansion of global trade flows by promoting East-West-South co-operation. The economic development in developing countries should receive top priority in the long-term self interest of developed countries, both East and West. The Group of 77 believes that this kind of tripartite co-operation should counteract the stagflationary pressures being transmitted through the channels of international trade and finance and thus reactivate the world economy and the development process of the developing countries.

Recommendations

182. The seventh session of the Conference represents an opportunity for reaffirming the commitment of the socialist countries of Eastern Europe to supporting the development efforts of developing countries in a manner compatible with their role in international economic co-operation.

183. The Group of 77 reiterates its position, as stated in the Buenos Aires Platform of 1983, that the socialist countries of Eastern Europe should take measures to contribute fully and effectively to the efforts of the developing countries to diversify and intensify their trade, share of their imports, including semi-manufactures and manufactures, from developing countries, and make further improvements in their GSP schemes. Efforts should also be made by the socialist countries of Eastern Europe to impove the terms and conditions of credits to the developing countries and also to enlarge their economic assistance, to increase the share of convertible currencies in resources made avilable for financing developing countries' projects and to develop a flexible and efficient payments mechanism in trade operations.

184. It is noted with some concern that no significant progress has been made during the past seven years on the informal text annexed to conference decision 145 (VI). It is time to re-examine this matter in the context of the current emerging international economic environment and break the deadlock. There is already agreement on most of the text except the issues concerning non-discrimination and 0.7 per cent mandatory economic assistance by the socialist countries of Eastern Europe. The Group of 77 has made a careful study of the proposals contained in document TD/B/1104. The programme for further promotion of inter-system trade as envisaged in these proposals is indeed very constructive and there are valuable suggestions for concrete measures to be adopted by the member States to achieve those objectives. There is a growing need for new approaches and a meeting of minds on confidence-building, since the evidence available indicates that the progress made in implementing various Conference resolutions and Board decisions is far from satisfactory. An analysis of the developments and trends in inter-system trade also shows that these developments still correspond neither to the economic potential of the trading partners nor to the existing possibilities or challenges of the 1980s and 1990s.

185. Against this background the Group of 77 consider that the best possible way to overcome this impasse and break the deadlock on the informal text annexed to Conference resolution 145 (VI) could be to concentrate on the already agreed contents of the text, which are indeed a solid basis for further negotiations. The Group of 77 should also take into account the existing international economic environment along with recent developments in the world economy and the factors which have influenced international economic relations during the past seven years. It is realized that the positions of the parties do not coincide on some substantive matters which have prevented a consensus at the last two UNCTAD sessions. At the same time, during several sessions of the Trade and Development Board, views on a number of issues involved have been brought closer together, corresponding to the changed conditions in the world. There is also growing recognition of the fact that expansion and deepening of inter-system trade and economic relations on a stable basis will not only impart new dynamism to the world economy and pull it out of the throes of recession but would also contribute to a relaxation of tensions between countries and promote international co-operation. Further, the new and complicated realities of the 1980s and 1990s demand fresh approaches and ideas which have been eloquently elaborated in the UNCTAD proposals in document TD/B/1104, in substance these proposals are in line with the agreed portions of the informal text annexed to Conference resolution 145 (VI) and they provide a useful background for a meeting of minds among the groups of countries concerned. It is high time to work out a fresh pragmatic approach and after considering de novo the relevant issues, even prepare a new text which could be adopted at UNCTAD VII taking into account the prospects for the later 1980s and 1990s.

186. The Group of 77 is indeed pleased to observe that UNCTAD's operational programme of technical assistance for the promotion of East-South trade has emerged as an important and major activity of the UNCTAD secretariat in pursuance of Board resolutions and decisions. This programme has been greatly appreciated by the Group of 77 and there have been repeated requeststo the Secretary-General of UNCTAD not only to continue this programme but to improve and intensify these activities by enlarging their scope and content. The Group of 77 urges that all efforts should be made to procure funds within UNCTAD's regular budget, as well as from UNDP and other sources, including voluntary contributions and/or trust funds, in order to establish a permanent unit within UNCTAD's Division for Trade with Socialist Countries to implement this technical assistance programme as a continuous, regular and systematic activity on an interregional, regional and national basis. There is an urgent need for advisory services for a number of developing countries which have not been able to develop their trade relations with the socialist countries of Eastern Europe owing to various constraints and lack of information and whose trade with them is either negligible or at best sporadic. The "Manual on trading with the socialist countries of Eastern Europe", issued within the framework of this technical assistance programme, has been hailed as an extremely useful publication for the business community of the developing countries and the Group of 77 would very much appreciate it if this publication could be up-dated and revised taking into account the various changes and new developments in the foreign trade system and management of socialist countries of Eastern Europe, as well as their new trade and economic policies. The establishment of a permanent unit within UNCTAD for undertaking all these activities would go a long way in serving as an effective instrument for promoting East-South trade. This unit could also serve as a focal point for co-ordinating technical assistance activites in this field, in close association with the United Nations regional commissions, the International Trade Centre UNCTAD/GATT and the Council for Mutual Economic Assistance (CMEA).

187. The Group of 77 has noted with satisfaction that during the past few years, a number of counries have availed themselves of the opportunities provided by the consultative machinery of UNCTAD established under Conference resolutions 15 (II) and 95 (IV). This machinery has been useful in assisting countries having different economic and social systems, and particularly the socialist countries of Eastern Europe and developing countries, in establishing trade-creative contacts and identifying possible areas for mutual commercial exchanges and economic co-operation. It is observed that apart from bilateral contacts, the number of multilateral consultations held so far has been limited. The consultative machinery could be more purposefully used for promoting multilateral co-operation. The Group of 77 would suggest that this machinery should be improved and made more effective and responsive to

the emerging needs of the member States, and at the same time the UNCTAD secretariat should intensify the substantive support for trade consultations of this kind and ensure that the experts attending consultations are equipped to exchange information on import/export possibilities for eventual trade negotiations.

188. With regard to research activities and the preparation of relevant studies, the Group of 77 has noted that there has been a significant improvement since the last Conference in 1983, but there is still need to give a further new direction to these research documents and studies so as to make them more practical and action-oriented. It would be useful to make a departure from the studies of a general nature emphasized so far and to pay special attention to more detailed investigations concerning specific issues related to East-South trade, viz. new forms of trade and economic co-operation, establishment of joint ventures and mixed companies, industrial and production co-operation, credit and financing, and compensation and buy-back arrangements, with case studies, as well as new developments in the management of the foreign trade system and the trade and economic policies of the socialist countries of Eastern Europe. The Group of 77 considers that it is important and necessary to disseminate all this information, especially to developing countries, in order to enable them to take advantage of the emerging opportunities for expanding mutually beneficial trade and economic co-operation with the socialist countries of Eastern Europe.

ITEM 3(D) OF THE PROVISIONAL AGENDA FOR UNCTAD VII

PROBLEMS OF THE LEAST DEVELOPED COUNTRIES,
BEARING IN MIND THE SUBSTANTIAL NEW PROGRAMME OF ACTION
FOR THE 1980s OF THE LEAST DEVELOPED COUNTRIES (LDCs)

I. BACKGROUND

189. The United Nations General Assembly decided in Resolution 34/202 of 19 December 1979 to convene a United Nations Conference with the objective of finalizing, adopting and supporting the Substantial New Programme of Action for 1990's for the Least Developed Countries.

190. Consequently UNCTAD convened the United Nations Conference on the Least Developed Countries in Paris from 1 to 14 September 1981 which unanimously adopted the Substantial New Programme of Action for the 1980s for the Least Developed Countries (SNPA). The programme was endorsed by the United Nations General Assembly in Resolution 36/194 of 17 December 1981, and subsequently reaffirmed. The objectives of the SNPA are:

(a) To promote the structural changes necessary to overcome the Least Developed Countries' extreme economic difficulties;

(b) To provide fully adequate and internationally acceptable minimum standards for the poor;

(c) To identify and support major investment opportunities and priorities;

(d) To mitigate, as far as possible, the adverse effects of natural disasters.

191. The SNPA is a long-term programme that spells out domestic measures to be taken by the LDCs themselves and international support measures for the implementation of the country development programmes. The measures are generally consistent with the third United Nations International Development Strategy, the Lagos Plan of Action and the recently adopted the United Nations Programme of Action for African Economic Recovery and Development (UNPAAERD).

II. CURRENT SITUATION AND PROBLEMS

192. The continuing economic crisis in the least developed countries, which are the poorest and economically weakest among the developing countries and are faced with the most formidable structural problems, has been a cause of grave concern to the international community. The structural deficiencies of these countries are manifested in extremely low levels of income per capita, a high proportion of population in the subsistence sectors, a high rate of population growth, low agricultural productivity, a low level of exploitation of natural resources, weak institutional and physical infrastructure, an acute scarcity of skilled personnel, an insignificant share of manufacturing value added in GDP, and the recurrence of natural disasters. These factors constitute the main causes of their extreme economic and social difficulties. The land-locked and island least developed countries, which constitute over half of the group of LDCs, continue to face additional problems in their development because of their serious geographical handicaps. The number of LDCs, instead of decreasing, increased to 40 countries in 1986 from a level of 31 in 1981 when SNPA was adopted. This situation indicates the worsening economic conditions of developing countries in general and least developed countries particularly in Africa where the number has increased from 21 to 27 countries. It is in recognition of the difficult economic situation of the LDCs that the international community undertook a commitment in the SNPA to provide substantially enlarged assistance to these countries to bring about structural transformation of their economies and to enable them to break away from their past and present situation and their bleak prospects, towards self-sustained development.

193. In spite of the increased attention given by the international community, and the international organizations, to finding a lasting solution to the problems of the least developed countries, mainly through the adoption of the SNPA in 1981, there has been a significant deterioration in the overall socio-economic situation of these countries since 1981. We are concerned that despite the existence of SNPA, African LDCs experienced a persistent deterioration in their economic growth between 1981 and 1984, as a result of the deepening domestic crisis occasioned by a hostile international economic environment as well as natural calamities and disasters, notably the drought since 1982. In addition, the presence of large numbers of refugees in some African LDCs has continued to place a heavy burden on the economies of these countries and has considerably aggravated their socio-economic problems. The overall

GDP (at 1980 constant prices) recorded an average annual growth rate of only 0.12 per cent in real terms during 1981-1984 with a marked recovery in 1985 of 2.3 per cent. This compares unfavourably with the growth rate of 3.0 and 3.6 per cent achieved during the period 1970-1975 and 1975-1980, respectively. The per capita income growth averaged -2.5 per cent between 1981 and 1984 (i.e. $150.4) and in 1985 a growth rate of -0.3 per cent was recorded (at 1980 prices) or $125.4.

194. GDP of the LDCs as a group declined during the first half of the 1980s and the majority of them registered negative per capita growth rates. The average annual rate of GDP growth during this period was 2 per cent, which amounted to an average annual decline of 0.5 per cent in per capita terms. This was against a positive average annual GDP growth rate of 4 per cent in the 1970s. Although there was a marginal improvement, to 2.7 per cent, in the GDP growth rate during 1985, that rate remained far short not only of the SNPA target of 7.2 per cent but also of the growth rate of 4 per cent actually achieved in the 1970s.

195. The performance in the agricultural sector continues to be the main factor determining overall growth in the LDCs, since that sector accounts for about 42 per cent of the GDP for all LDCs combined and absorbs 80 per cent of their labour force, as compared to 17 per cent and 56 per cent for developing countries as a whole. The agricultural production per capita declined in the LDCs at an average annual rate of 0.3 per cent during the 1970s. The decline in per capita terms continued during the first half of the 1980s at an average annual rate of 0.6 per cent. Per capita food production also registered an average annual decline of 0.9 per cent during the first half of the 1980s, as compared to the average annual decline of 0.5 per cent during the 1970s. The main bottlenecks include drought which is widespread especially in Africa and is still being experienced in many parts of the continent. This seriously jeopardized food and livestock production and resulted in low productivity generally.

196. The record of progress in manufacturing activities, energy consumption, development of transport and communication, etc. was also disappointing during the first half of the 1980s. The average growth rate of real GDP arising from manufacturing in most of the LDCs in 1984 was only 1.3 per cent. The consumption of energy remained at an extremely low level of 313 kg per capita in 1984, as compared to 569 kg in developing countries as a group. In the area of transport and communications, particularly in the 15 land-locked and nine island LDCs, the situation remains critical.

197. The external trade and payments position of most of the LDCs continued to suffer from depressed conditions in world commodity markets, worsening terms of trade, increased protectionism, and reduced ODA and other types of financial flows and workers' remittances. The exports of the LDCs were 10 per cent lower during the first three years of the present decade than the level attained in 1980. Although there was a slight recovery in 1984, the exports started declining again in 1985 and reached a level 7.2 per cent below the 1980 figure. The prices of almost all primary commodities of export interest to the LDCs dropped by a large margin, and the average annual shortfall in export earnings from such commodities was about SDR 770 million during the period 1980-1983. The decline in export earnings had an adverse impact on capacity to import, which also declined by 6 per cent between 1980 and 1985.

III. FACTORS UNDERLYING THE DEEPENING ECONOMIC SITUATION AND MEASURES TAKEN BY THE LEAST DEVELOPED COUNTRIES

198. The worsening of the economic situation in the LDCs during the first half of the 1980s was due, inter alia, to the following factors:

(a) Net ODA receipts by the LDCs stagnated at around SDR 7 billion per annum during the period 1980-1984, as compared with an average increase of about 70 per cent per annum in ODA flows during the 1970s. The total level of ODA in 1984 was only 44 per cent above the average level attained in 1976-1980 in nominal terms, as against the commitment undertaken by the donor countries in the SNPA to double such flows by 1985. Total ODA flows in 1984 were 0.09 per cent of the donors' GNP, as against the target of 0.15 per cent fixed in the SNPA.

(b) Aid from multilateral agencies registered a decline in 1985, whereas in the SNPA there was a specific commitment for a significant increase in multilateral assistance to the least developed countries.

(c) Non-concessional financial flows, which had increased by an average of more than 100 per cent every year during the 1970s, underwent a steady decline in the 1980s, falling to only SDR 457 million in 1984. This was against total non-concession flows of SDR 1.1 billion in 1980. Total external assistance provided to LDCs declined from SDR 8.2 billion in 1980 to only SDR 7.5 billion in nominal terms in 1984.

(d) The commitments undertaken in the SNPA to improve aid modalities in favour of the LDCs did not materialize. The average grant element of concessional assistance, which had increased from 86 per cent in 1981 to 89 per cent in 1983, declined to about 85 per cent in 1984. About 40 per cent of total aid from DAC countries to LDCs in 1984 was tied. Some initiatives have recently been taken by a number of donors to give more emphasis to programme aid including sectoral assistance, general import financing and balance-of-payment support, as well as commodity aid, food aid, local-cost financing, and recurrent cost financing but these measures are totally inadequate to meet the needs of the least developed countries.

(e) The external debt of the LDCs which grew rapidly in the 1970s, worsened considerably during the first half of the 1980s as a result of the adverse impact of the world economic crisis on the debt servicing capacity of these countries. Their total external debt, including short-term debts, is estimated to have been over $39 billion at the end of 1985, a 13 per cent increase as compared to the previous year. In addition, their use of IMF credit was estimated at $2.2 billion. Although these amounts might seem to be modest in absolute terms as compared to the debts of the other developing countries they continue to exceed 50 per cent of GDP on average. Over 90 per cent of LDCs' external debts consist of medium- and long-term debts, and the major parts are to multilateral agencies. Debt service payments in 1985 amounted to $2 billion, representing well over 20 per cent of the value of the combined exports of the LDCs. Debt service payments arising from non-concessional debts have continued to form the main part of LDCs' total debt service payments. Although some debt relief has been provided by 15 DAC member countries for their ODA debt to 33 LDCs under Trade and Development Board resolution 165 (S-IX), the debt service problem remains critical for many LDCs. The problem has been exacerbated by a sizeable proportion of non-commercial debt and by the significant increase in the multilateral debt which is not under the purview of resolution 165 (S-IX) and is subject to multilateral reschedulings. Since the adoption of the SNPA in 1981, 13 LDCs have had recourse to the Paris Club to reschedule their official debt and five LDCs to the London Club to reschedule commercial debt. Moreover, a number of LDCs had to ask for another rescheduling in order to cope with their increased debt liabilities. However, these reschedulings have also proved to be inadequate as they only provide temporary relief and do not entail a diminution of debt stocks. Eventually they add to the debt burden.

(f) Since the adoption of the PAAERD in 1981, 19 least developed countries have formulated an adjustment programme supported by a stand-by arrangement with IMF. These programmes in the absence of increased inflow of external financial resources have resulted in sharp cuts in imports, investments, budgets and social outlays, thus further slowing down economic growth.

(g) The continuance of tariff and non-tariff barriers in important markets still inhibits expansion of LDCs' exports. In spite of commitments undertaken in the SIPA, the 1982 GATT Ministerial Declaration and, most recently the Punta Del Este Declaration of 1986, many developed countries continue to impose various types of restrictions on exports from LDCs. Moreover, the land-locked and island LDCs suffer from high transportation costs which make their products uncompetitive in the world market.

(h) In view of the fact that almost 85 per cent of the LDCs' exports consist of primary commodities and are concentrated on only a few products, these exports have been hard hit by the collapse of international commodity prices and the deterioration terms of trade. The prices of almost all primary commodities of export interest to the LDCs have droped precipitously. This has adversely affected the foreign exchange earnings of the LDCs. The average annual shortfall in export earnings for important commodities exported by LDCs during the period 1979-1983 amounted to about $770 million, representing 11 per cent of their average annual exports and equivalent to more than two thirds of the total concessional assistance rendered to the LDCs in 1983. This coupled with increasing debt service payments and declining ODA flows, has adversely affected the role of the external sector in enhancing the economic development of the LDCs and has further marginalized their economies vis-a vis the world economy. The compensatory financing available to them under the existing financing schemes is inadequate and this has resulted in depletion of their monetary reserves and overall capacity to mobilize finance for development. The commitments undertaken in the SIPA for special provisions in favour of the LDCs in terms of compensating their commodity-related export earnings shortfall, has not been fully realized.

(i) Assistance so far provided to land-locked and island countries among the least developed countries and measures taken in implementing the relevant resolutions are still very inadequate in terms of alleviating the problems confronting them.

199. The least developed countries, on their part, have implemented several measures to improve their economic conditions. These include, among others, adoption of effective policies to mobilise domestic resources, expand food and agricultural production and develop their external trade. Since the adoption of the SNPA, almost all the LDCs have designated focal points for the implementation, follow-up and monitoring of the SNPA. Twenty eight LDCs have had a country review meeting as envisaged by the SNPA. Five more LDCs are preparing for the convening of such meetings.

200. Low and often declining per capital income notwithstanding, several LDCs were able to achieve domestic savings rates exceeding 10 per cent and in a few areas exceeding 15 per cent during the period 1980-1984. In an effort to further improve mobilization of domestic resources, several LDCs have implemented measures to make their tax system simpler and more broadly based and to improve tax administration. Measures have also been initiated in several LDCs to improve the performance of public sector enterprises. The development and mobilization of human resources, through eradication of adult illiteracy, expansion of public education, including vocational training, and development of entrepreneurial capacities, is an important element in the development plans and programmes of several LDCs. Adult illiteracy rates decreased by more than 20 percentage points between 1970 and 1985 in seven LDCs. Almost all LDCs decreased their illiteracy rate between 1980 and 1985. The number of students undertaking vocational training in the LDCs increased by 24 per cent between 1980 and 1984. In the field of food and agricultural production, many LDCs have taken steps to increase production and productivity, inter alia, increasing the use of the market mechanism, mobilizing the rural population and diversifying production. In order better to respond to the adverse and changing economic environment, many LDCs have adopted appropriate policy measures to enhance the effective implementation of the institutional and physical infrastructure, in spite of limited resources. The assistance provided by other developing countries in the context of TCDC has reinforced the efforts of the LDCs themselves to alleviate some of their problems. In spite of all these positive measures the development prospects of the LDCs' remain bleak due to the extremely adverse external environment.

IV. RECOMMENDATIONS

201. At the end of the mid-term global review of the implementation of the SNPA, conducted by the Intergovernmental Group of the Least Developed Countries in September/October 1985, a number of recommendations were made for the improvement of the condition of the LDCs and for full implementation of the SNPA. It would be necessary to fully and expeditiously implement all these recommendations and conclusions, along with other measures, included in the SNPA itself. The following, inter alia, deserve reiteration and expeditious action:

(i) The LDCs re-affirm their primary responsibility for their overall development;

(ii) The international community should support the efforts of LDCs to increase their per capita food production, and in view of the energy problems, provide financial and technical assistance for research, exploration and development of energy resources; and should assist in maximizing capacity utilization of their productive economic units;

(iii) Donors should endeavour to provide emergency assistance and financing of costs involved in the management of relief operations in African LDCs affected by food and other emergencies;

(iv) The SNPA should be fully and effectively implemented, and substantially enlarged volume of financial assistance in real terms should be given to LDCs on terms which correspond to their immediate and long-term development needs;

(v) Donor countries which have not yet done so should attain 0.15 per cent of their GNP as ODA to the LDCs before the end of the decade or should attain on a priority basis, a doubling of their ODA (a target which was originally to be achieved by 1985);

(vi) The multilateral assistance to the LDCs through channels like IDA, IFAD, regional development banks and their funds, UNDP, the Special Measures Fund for the LDCs, UNCDF, UNVP, etc. should be significantly increased to meet the increased needs of the LDCs, and donors should channel a substantial part of their aid through these institutions and agencies;

(vii) The Eighth Replenishment of IDA should be significantly higher than the previous levels, keeping in view the critical importance of IDA for the LDCs;

(viii) Relevant international institutions should intensify their efforts to establish new mechanisms and arrangements for mobilizing increased financial transfers to the LDCs, including such measures as an international tax scheme for development, further gold sales by the IMF; linking the creation of SDRs to development assistance, and the use of interest subsidy techniques. The IMF should undertake a fundamental review of the principles on which its conditionality rests in such a way as to reflect the peculiar social, economic and political priorities of the LDCs and allocate substantial portion of Special Drawing Rights (SDRs), Trust Fund facilities and compensatory financing facilities to these countries;

(ix) With regard to aid modalities, immediate steps should be taken to provide ODA to the LDCs in the form of grants, and to indiscriminately provide loans on highly concessional terms, at least as concessional as those provided by IDA, and on an un-tied basis. They should also take steps to improve the quality and effectiveness of aid, and eliminate the time-lag between aid commitment and disbursement. In this regard mechanism that would ensure automaticity and predictability of disbursement should be created;

(x) Developed countries should fully implement Trade and Development Board resolution 165 (S-IX) expeditiously and convert all outstanding bilateral ODA loans of all the LDCs into grants without discrimination;

(xi) Donor countries should take steps for increased local-cost as well as recurrent-cost financing;

(xii) Creditors should provide substantial and multi-year scheduling of private debts including the waiving of service payments and/or out-right cancellation of the debt.

(xiii) Advance payments should be made by the donors against their commitment in order to minimize delays in disbursement and improve the effectiveness of assistance;

(xiv) Donors should provide increased balance-of-payments support as well as commodity aid, programme aid, including sector assistance and general import financing, and their terms should be flexible enough to facilitate effective use. Such balance-of-payments support in general must not be used to exercise political pressure on the least developed countries and should not be dependent on acceptance by these countries of measures and programmes which involve social costs that hinder their basic aims, objectives and priorities or compromize their political independence and national sovereignty;

(xv) Donors should provide timely assistance on appropriate terms to mitigate the adverse effects of adjustment programmes and to support the efforts of the LDCs in implementing the required policy changes;

(xvi) Developed countries and international organizations should also assist the LDCs to create industries for on-the-spot processing of raw materials and food products, and the development of integrated projects for the expansion of exports and to provide adequate resources to overcome all supply bottlenecks;

(xvii) A compensatory facility for fully compensating the export earning shortfalls of the developing countries should be established with special provision for the LDCs. Special measures should be taken to strengthen the commodity markets and enhance export receipts of the LDCs from such commodities. Special arrangements should be considered for the LDCs in the IMF Compensatory Financing Facility Scheme by providing for full coverage of their export shortfalls, for the subsidization of their interest payments on outstanding drawings and for a longer repayment and grace periods than hitherto;

(xviii) All developed countries which have not yet done so should expeditiously adopt special measures in order to compensate fully the export earnings shortfalls of the LDCs;

(xix) In accordance with the United Nations Convention on the Law of the Sea of 1982, Conference resolutions 137 (VI) and 138 (VI), and Trade and Development Board resolutions 319 (XXXI) on consideration of the specific needs and problems

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of land-locked and island countries among the least developed countries and the extremely acute nature of the problems, transit countries should intensify co-operation with the land-locked countries among the LDCs to alleviate the transit problems;

(xx) Donors, while providing technical and financial assistance to land-locked and island countries among LDCs, should particularly focus on capital input in infrastructural development. International bodies, in particular UNDP and the regional commissions, should continue to support those least developed countries with measures required to alleviate their specific transit-transport and communications problems;

(xxi) In the application of all measures it should be ensured that the assistance benefits all least developed countries according to their individual requirements on a just and equitable basis;

(xxii) The country review meetings which are the mechanisms for the periodic review and implementation of the SNPA should be further strengthened and improved to make them more effective. UNDP and the World Bank, as the lead agencies, should expand their technical assistance to the LDCs to enable them to prepare efficiently for these meetings. Donor countries should be represented at an adequately high level. The meetings should result in firm commitments and secure increased mobilization of resources to the LDCs.

(xxiii) In the context of economic co-operation among developing countries and in the spirit of collective self-reliance, developing countries in a position to do so, should continue to provide assistance to the African least developed countries within the means available to them.

(xxiv) Developed donor countries and international financial institutions participating in country review meetings for LDCs, in particular the UNDP sponsored Round Table Processes (RTPs), should not link their commitments of development resources to the conditionality that the LDCs should have an effective operational IMF/IBRD adjustment programme; these country review meetings should be seen essentially as additional measures for increasing financial resources to

the accelerated development of LDCs.

(xxv) The IMF and the World Bank should be urged to provide an effective intervention mechanism in support of LDC currencies while these countries implement IMF/IBRD adjustment programmes; otherwise these currencies will be subject to rapid exchange rate deterioration which in turn will aggravate inflation, reduce growth in particular and development in general.